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**JOINT SPECIAL ADMINISTRATORS' REPORT**

**of the creditors' decision procedure pursuant to paragraph 54 of Schedule B1 of  
the Insolvency Act 1986 on 12 December 2017**

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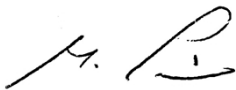
This report comprises the joint special administrators' report of the conduct and outcome of the creditors' decision procedure of the Company held pursuant to, among others, paragraph 54 of Schedule B1 of the Insolvency Act 1986 (the "**Act**") as modified by Regulation 15 of the Investment Bank Special Administration Regulations 2011 (the "**SAR Regulations**") and is the report of the joint special administrators to the court as contemplated by such regulations and by paragraph 54(6) of Schedule B1 of the Act and by rule 67 of the Investment Bank Special Administration (England and Wales) Rules 2011 (the "**SAR Rules**").

**1 Creditors' Decision Procedure**

- 1.1 Pursuant to Section 3 of the Act, a decision of creditors was taken at a physical meeting of creditors at 12.00 on Tuesday, 12 December 2017 at The Connaught Rooms, 61-65 Great Queen Street, London WC2B 5DA (the "**Creditors' Meeting**").
- 1.2 The chairman of the meeting was Michael Robert Pink (the "**Chair**"), one of the Company's joint special administrators. Joint special administrators Richard Heis and Edward George Boyle (together with Michael Robert Pink, the "**Joint Special Administrators**") and a quorum of creditors were also present.
- 1.3 The purpose of the Creditors' Meeting was to consider the proposal of a company voluntary arrangement pursuant to Part 1 of the Act (the "**Proposal**") and to consider the revisions to the Joint Special Administrators' statement of proposals dated 16 December 2011 (the "**Original Statement of Proposals**") pursuant to rules 65 and 66 of the SAR Rules.
- 1.4 There were no objections to the notice of the decision procedure and the Proposal, all as despatched to creditors on 23 November 2017, and revised on 30 November 2017 being taken as read.
- 1.5 The creditors were asked if they wished to propose any modification to the Proposal which included the revisions to the Original Statement of Proposals (the "**Statement of Proposals Amendments**"). None did so.
- 1.6 The following resolutions ("**Decisions (1), (2) and (3)**") were proposed:
  1. To consider and approve, if appropriate, the Statement of Proposals Amendments;

2. To consider and approve, if appropriate, the Company's Proposals dated 23 November 2017 for a Voluntary Arrangement with or without modifications; and
  3. If Resolution (2) is approved, to consider and approve the resolution that any act to be done by the Supervisors in connection with the arrangement may be done by all or any one or more of them.
- 1.7 A decision of creditors was taken on Decisions (1), (2) and (3). Set out in Appendices 1 to 4 are summaries and lists of the creditors (with their respective values), showing how they voted on Decisions (1), (2) and (3) and also identifying which of those creditors were considered to be connected with the Company.
- 1.8 The requisite majority to approve a decision is a majority in excess of 50 percent in value of creditors voting on Decision (1) and three-quarters or more in value of creditors voting on the Decisions (2) and (3). Having regard (inter alia) to the provisions of Rule 15.34 of the Rules and Rule 94 of the SAR Rules, the Chair confirms that Decisions (1), (2) and (3) were passed.
- 1.9 Accordingly, the Proposal and the Statement of Proposals Amendments were approved without modification by the creditors listed in Appendices 1 to 4.
- 1.10 A copy of the Statement of Proposals Amendments together with the Original Proposals are enclosed with this report pursuant to rule 67(c) of the SAR Rules and rule 3.43(3) of the Insolvency (England and Wales) Rules 2016.

Signed



Dated 22 December 2017

Michael Robert Pink

Chair of the Creditors Meeting/Joint Special Administrator

Enclosures:

Extract of CVA – Statement of Proposals Amendments  
Original Statement of Proposals dated 16 December 2011

**MF Global UK Limited in Special Administration – under a Voluntary Arrangement**  
**Appendix 1**  
**Details of voting on Decisions (1), (2) and (3)**

Voting in respect of Decision (1) “that the Statement of Proposals Amendments be approved”:

	£	% of voting creditors
For the above decision: Creditors listed in Appendix 2	67,596,980.44	96.40%
Against the above decision: Creditors listed in Appendix 3	2,522,645.64	3.60%
Abstained from voting on the decision Creditors listed in Appendix 4	Nil	N/A
	<b>70,119,626.08</b>	

The above figures include voting by connected creditors. These figures differ from those announced at the meeting following a review and reconciliation of the proxies received.

The table below summaries the voting position excluding connected creditor(s)

	£	% of voting creditors
For the above decision: Creditors listed in Appendix 2	43,285,557.25	94.49%
Against the above decision: Creditors listed in Appendix 3	2,522,645.64	5.51%
Abstained from voting on the decision Creditors listed in Appendix 4	Nil	N/A
	<b>45,808,202.89</b>	

Voting in respect of Decision (2) "That, the Company Voluntary Arrangement be approved":

	£	% of voting creditors
For the above decision:		
Creditors listed in Appendix 2	67,438,567.61	96.39%
Against the above decision:		
Creditors listed in Appendix 3	2,522,645.64	3.61%
Abstained from voting on the decision		
Creditors listed in Appendix 4	Nil	N/A
	<b><u>69,961,213.25</u></b>	

The above figures include voting by connected creditor(s). The table below summaries the voting position excluding the connected creditor(s)

	£	% of voting creditors
For the above decision:		
Creditors listed in Appendix 2	43,127,144.42	94.47%
Against the above decision:		
Creditors listed in Appendix 3	2,522,645.64	5.53%
Abstained from voting on the decision		
Creditors listed in Appendix 4	Nil	N/A
	<b><u>45,649,790.06</u></b>	

Voting in respect of Decision (3) "That, if decision (2) is approved, any act to be done by the Joint Supervisors in connection with the arrangement may be done by all or any one or more of them":

	£	% of voting creditors
For the above decision:		
Creditors listed in Appendix 2	67,438,567.61	96.39%
Against the above decision:		
Creditors listed in Appendix 3	2,522,645.64	3.61%
Abstained from voting on the decision		
Creditors listed in Appendix 4	Nil	N/A
	<b><u>69,961,213.25</u></b>	

The above figures include voting by connected creditor(s). The table below summaries the voting position excluding the connected creditor(s)

	£	% of voting creditors
For the above decision:		
Creditors listed in Appendix 2	43,127,144.42	94.47%
Against the above decision:		
Creditors listed in Appendix 3	2,522,645.64	5.53%
Abstained from voting on the decision		
Creditors listed in Appendix 4	Nil	N/A
	<b><u>45,649,790.06</u></b>	

## MF Global UK Limited in Special Administration – under a Voluntary Arrangement

### Appendix 2

List of creditors voting “for” decision (1)

<b>Creditor</b>	<b>Voting value (£)</b>
Worldwide Finance Ltd	158,294.92
Holder Investments Ltd	79,209.21
Lacks Industries Inc	162,727.87
Broadgate Mercury Limited - In Liquidation	3,040.31
Independent Audit Limited	727.25
The Value Catalyst Fund Limited	11,072.13
LP Value Limited	13,030.00
LP Alternative LP	16,466.30
LACV Limited	253,955.95
Laxey Worldwide Limited	500.00
LACMA Limited	80,056.03
Laxey Partners Limited	33,014.11
Glencore International AG	372,610.51
ARM Asset Management Ltd	1,794.85
Hottinger Investment Management Limited	1,811.46
Self Invested Pension R L BRAKE	179,819.18
Schneider Trading Associates	48,920.83
Beechstone Limited	3,427.14
ADK Soho Fund LP	205,639.12
EMA Textiles Ltd	348,830.46
SG Option Europe SA	338,773.00
Attestor Value Master Fund LP	9,833,382.63
Hamilton Kilgour Ltd	10,635.00
Marzillier as representative for its clients	224,898.29
SPCP Group LLC	14,361,054.91
SC Lowy Primary Investments Ltd	797,155.65
CVIC LUV Master SARL	1,713,498.01
CVI CVF II LUX MASTER SARL	154,602.27
CVF LUX MASTER SARL	5,070,588.56
CVIC II LUX MASTER SARL	28,274.49
CVI GVF (LUX) MASTER SARL	689,965.49
Fonds de Pensions Complementaire Nestle	85,821.12
Hammerer Aluminium Inudstries GMBH	203,883.86
Christos Apostolidis	117.91
MF Global Assigned Assets LLC	11,500,000.00
Middle Hill Holding, L.L.C	44,397.39
HBK Master FUND L.P	314,060.95
KIT Finance Europe AS	44,971.55
Canaccord Genuity Limited/ Collins Stewart Europe Limited	51,992.46
Magrath LLP	1,956.50
MF Global UK Services Limited (in administration)	1,152,241.49
Nord Sea Corporation	15,303.30
Burlington Loan Management	1,422,895.47
CF Corporate	11,215.03
British Telecom Services	5,418.20
Unipac Asia Company Limited	191,695.49
China Minmental Nonferrous Metals Co Ltd	71,364.17

MF Global Holdings USA, Inc	28,532.88
MF Global FX Clear LLC	3,070,273.49
MF Global Special Investor LLC	4,776,238.55
MF Global Intellectual Properties Kit	12,636.67
MF Global Suisse SA	82,713.31
MF Global Holdings Ltd	852,767.71
MF Global Capital LLC	2,497,391.69
Killik & Co LLP	12,140.35
MF Global Overseas Limited	12,795.18
MF Global Finance Europe Limited	325,832.21
Shanxi Securities International Financial Holdings	36,376.10
FSCS	2,531,819.68
Illiquidix LLP	124,703.26
Mirador International LLC	135,863.73
Salonika Foundation	4,214.57
Unipac Singapore Pte Ltd	2,707,637.54
Paul Weatherhead	11,902.65
D Weatherhead Ltd	58,030.07
<b>Total</b>	<b>67,596,980.44</b>

List of creditors voting "for" decision (2)

<b>Creditor</b>	<b>Voting value (£)</b>
Holder Investments Ltd	79,209.21
Lacks Industries Inc	162,727.87
Broadgate Mercury Limited - In Liquidation	3,040.31
Independent Audit Limited	727.25
The Value Catalyst Fund Limited	11,072.13
LP Value Limited	13,030.00
LP Alternative LP	16,466.30
LACV Limited	253,955.95
Laxey Worldwide Limited	500.00
LACMA Limited	80,056.03
Laxey Partners Limited	33,014.11
Glencore International AG	372,610.51
ARM Asset Management Ltd	1,794.85
Hottinger Investment Management Limited	1,811.46
Self Invested Pension R L BRAKE	179,819.18
Schneider Trading Associates	48,920.83
Beechstone Limited	3,427.14
ADK Soho Fund LP	205,639.12
EMA Textiles Ltd	348,830.46
SG Option Europe SA	338,773.00
Attestor Value Master Fund LP	9,833,382.63
Hamilton Kilgour Ltd	10,635.00
Marzillier as representative for its clients	224,898.29
SPCP Group LLC	14,361,054.91
SC Lowy Primary Investments Ltd	797,155.65
CVIC LUV Master SARL	1,713,498.01
CVI CVF II LUX MASTER SARL	154,602.27
CVF LUX MASTER SARL	5,070,588.56
CVIC II LUX MASTER SARL	28,274.49
CVI GVF (LUX) MASTER SARL	689,965.49

Fonds de Pensions Complementary Nestle	85,821.12
Hammerer Aluminium Industries GMBH	203,883.86
MF Global Assigned Assets LLC	11,500,000.00
Middle Hill Holding, L.L.C	44,397.39
HBK Master FUND L.P	314,060.95
KIT Finance Europe AS	44,971.55
Canaccord Genuity Limited/ Collins Stewart Europe Limited	51,992.46
Magrath LLP	1,956.50
MF Global UK Services Limited (in administration)	1,152,241.49
Nord Sea Corporation	15,303.30
Burlington Loan Management	1,422,895.47
CF Corporate	11,215.03
British Telecom Services	5,418.20
Unipec Asia Company Limited	191,695.49
China Minmetal Nonferrous Metals Co Ltd	71,364.17
MF Global Holdings USA, Inc	28,532.88
MF Global FX Clear LLC	3,070,273.49
MF Global Special Investor LLC	4,776,238.55
MF Global Intellectual Properties Kit	12,636.67
MF Global Suisse SA	82,713.31
MF Global Holdings Ltd	852,767.71
MF Global Capital LLC	2,497,391.69
Killik & Co LLP	12,140.35
MF Global Overseas Limited	12,795.18
MF Global Finance Europe Limited	325,832.21
Shanxi Securities International Financial Holdings	36,376.10
FSCS	2,531,819.68
Illiquidx LLP	124,703.26
Mirador International LLC	135,863.73
Salonika Foundation	4,214.57
Unipec Singapore Pte Ltd	2,707,637.54
Paul Weatherhead	11,902.65
D Weatherhead Ltd	58,030.07
<b>Total</b>	<b>67,438,567.61</b>

List of creditors voting “for” decision (3)

<b>Creditor</b>	<b>Voting value (£)</b>
Holder Investments Ltd	79,209.21
Lacks Industries Inc	162,727.87
Broadgate Mercury Limited - In Liquidation	3,040.31
Independent Audit Limited	727.25
The Value Catalyst Fund Limited	11,072.13
LP Value Limited	13,030.00
LP Alternative LP	16,466.30
LACV Limited	253,955.95
Laxey Worldwide Limited	500.00
LACMA Limited	80,056.03
Laxey Partners Limited	33,014.11
Glencore International AG	372,610.51
ARM Asset Management Ltd	1,794.85
Hottinger Investment Management Limited	1,811.46
Self Invested Pension R L BRAKE	179,819.18



Schneider Trading Associates	48,920.83
Beechstone Limited	3,427.14
ADK Soho Fund LP	205,639.12
EMA Textiles Ltd	348,830.46
SG Option Europe SA	338,773.00
Attestor Value Master Fund LP	9,833,382.63
Hamilton Kilgour Ltd	10,635.00
Marzillier as representative for its clients	224,898.29
SPCP Group LLC	14,361,054.91
SC Lowy Primary Investments Ltd	797,155.65
CVIC LUV Master SARL	1,713,498.01
CVI CVF II LUX MASTER SARL	154,602.27
CVF LUX MASTER SARL	5,070,588.56
CVIC II LUX MASTER SARL	28,274.49
CVI GVF (LUX) MASTER SARL	689,965.49
Fonds de Pensions Complementaire Nestle	85,821.12
Hammerer Aluminium Industries GMBH	203,883.86
MF Global Assigned Assets LLC	11,500,000.00
Middle Hill Holding, L.L.C	44,397.39
HBK Master FUND L.P	314,060.95
KIT Finance Europe AS	44,971.55
Canaccord Genuity Limited/ Collins Stewart Europe Limited	51,992.46
Magrath LLP	1,956.50
MF Global UK Services Limited (in administration)	1,152,241.49
Nord Sea Corporation	15,303.30
Burlington Loan Management	1,422,895.47
CF Corporate	11,215.03
British Telecom Services	5,418.20
Unipac Asia Company Limited	191,695.49
China Minmental Nonferrous Metals Co Ltd	71,364.17
MF Global Holdings USA, Inc	28,532.88
MF Global FX Clear LLC	3,070,273.49
MF Global Special Investor LLC	4,776,238.55
MF Global Intellectual Properties Kit	12,636.67
MF Global Suisse SA	82,713.31
MF Global Holdings Ltd	852,767.71
MF Global Capital LLC	2,497,391.69
Killik & Co LLP	12,140.35
MF Global Overseas Limited	12,795.18
MF Global Finance Europe Limited	325,832.21
Shanxi Securities International Financial Holdings	36,376.10
FSCS	2,531,819.68
Illiquidx LLP	124,703.26
Mirador International LLC	135,863.73
Salonika Foundation	4,214.57
Unipac Singapore Pte Ltd	2,707,637.54
Paul Weatherhead	11,902.65
D Weatherhead Ltd	58,030.07
<b>Total</b>	<b>67,438,567.61</b>

**MF Global UK Limited in Special Administration – under a Voluntary Arrangement**  
**Appendix 3**

List of creditors voting “against” decision (1)

<b>Creditor</b>	<b>Voting value (£)</b>
Double Eight Limited	10,812.00
Contrarian Funds MFG LLC	2,411,272.52
Contrarian Funds LLC	100,561.12
<b>Total</b>	<b>2,522,645.64</b>

List of creditors voting “against” decision (2)

<b>Creditor</b>	<b>Voting value (£)</b>
Double Eight Limited	10,812.00
Contrarian Funds MFG LLC	2,411,272.52
Contrarian Funds LLC	100,561.12
<b>Total</b>	<b>2,522,645.64</b>

List of creditors voting “against” decision (3)

<b>Creditor</b>	<b>Voting value (£)</b>
Double Eight Limited	10,812.00
Contrarian Funds MFG LLC	2,411,272.52
Contrarian Funds LLC	100,561.12
<b>Total</b>	<b>2,522,645.64</b>

**MF Global UK Limited in Special Administration – under a Voluntary Arrangement  
Appendix 4**

List of creditors “abstaining” from voting either for or against decisions (1), (2) and (3):

<b>Creditor</b>	<b>Voting value</b>
None	<u>Not applicable</u>
	<u>Not applicable</u>

**\*\*\* EXTRACT RELATING TO STATEMENT OF PROPOSALS AMENDMENTS \*\*\***



**CR-2011-013738**

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**THIS DOCUMENT (THE "PROPOSAL") IS IMPORTANT  
AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**MF GLOBAL UK LIMITED (IN SPECIAL ADMINISTRATION)**

**AND EACH OF ITS CVA CREDITORS** *(as defined herein)*

**IN CONNECTION WITH THE ADMINISTRATORS' PROPOSAL FOR**

**A COMPANY VOLUNTARY ARRANGEMENT**

*Under Part I of the Insolvency Act 1986*

opportunity to participate in the funding of these Exit Payments, subject to certain eligibility criteria relating to quantum and proof of funds.

- 1.25 Following receipt of their Exit Payment, the Exiting Creditors will receive no further monies from the Estate. Their claims will be transferred to a bare trust (referred to as the CVA Trust in this Proposal) which will hold the claims for the benefit of the Underwriting Creditor and any other creditors who choose to participate under this CVA as Participating Creditors.

#### **Amending the Administrators' Statement of Proposals**

- 1.26 In connection with this Proposal, the Administrators propose to amend the Administrators' Statement of Proposals to clarify that, in accordance with regulation 21 of the Regulations, the Administrators may propose a company voluntary arrangement as part of their pursuit of the second limb of the third objective of the special administration objectives, to wind up the Company in the best interest of the creditors (the "**Statement of Proposals Amendments**").
- 1.27 All CVA Creditors may vote in relation to the Statement of Proposals Amendments at the Creditors' Meeting.

## **2 SUMMARY OF THE PROPOSAL**

### **Compromise**

- 2.1 The Administrators propose that, provided the CVA is approved by the requisite majority of CVA Creditors and subject to the further conditions set out in this Proposal, the rights of the CVA Creditors are compromised as follows:
- (a) all Allowed Creditors shall, to the extent they have not already received this, receive a catch-up distribution up to 90 pence in the pound on their Allowed Claims, on the terms set out in paragraph 4 (*Catch-up Distribution*) of Section 2;
  - (b) all Exiting Creditors will receive (in addition to any catch-up distribution entitlement) a final cash payment (referred to as an Exit Payment) that brings their aggregate payments in respect of their Allowed Claims to 99.75 pence in the pound, upon receipt of which their Allowed Claims will be assigned to the CVA Trust, on the terms set out in paragraph 8 (*Exiting Creditors*) of Section 2;
  - (c) all Stay-in Creditors will retain their Allowed Claims until such time that the Administrators, acting in good faith, determine that all Provable Claims against the Company that would materially affect the value of the proposed payments to Stay-in Creditors described in this paragraph have been finally determined to the satisfaction of the Administrators, at which point (estimated to be after circa 2 years and after provision for certain estimated future liabilities) they will receive a final payment in respect of their Allowed Claims (referred to as a Final Stay In Creditors Distribution and which shall not include the benefit of any payment or settlement in respect of the Pending DTT Reclaims or EU Reclaims), upon which their Allowed Claims will be assigned to the CVA Trust, on the terms set out in paragraph 9 (*Stay-in Creditors*) of Section 2;
  - (d) all Participating Creditors will participate pro rata in the funding of the Exit Payments to be made to the Exiting Creditors under paragraph (b) above and will receive a pro rata beneficial interest in the CVA Trust, on the terms set out in paragraph 7 (*Participating Creditors*) of Section 2;
  - (e) the Subordinated Debt of Finance Europe will be subject to the arrangements set out in paragraph 12 (*Subordinated Debt*) of Section 2; and



*cutting through complexity™*



CR-2011-013738

# MF Global UK Limited – in Special Administration

Joint Special Administrators' Proposals for Achieving the  
Purpose of the special administration

16 December 2011

# Notice: About this Proposal

This statement of proposals has been prepared by Richard Heis, Michael Robert Pink and Richard Dixon Fleming, the joint Special Administrators of MF Global UK Limited (in special administration) solely to comply with their statutory duty under Rule 59 of the Investment Bank Special Administration (England and Wales) Rules 2011 setting out the objectives of the special administration and for no other purpose. This statement of proposals is not suitable to be relied upon by any person, or for any other purpose, or in any other context.

This statement of proposals has not been prepared in contemplation of it being used, and is not suitable to be used, to inform any investment decision in relation to the debt of or any financial interest in MF Global UK Limited (in special administration).

Any estimated outcomes for creditors included in this statement of proposals are illustrative only and cannot be relied upon as guidance as to the actual outcomes for clients, creditors or other stakeholders. Any person that chooses to rely on this statement of proposals for any purpose, or in any context, other than under Rule 59 of the Investment Bank Special Administration (England and Wales) Rules 2011 does so at their own risk.

To the fullest extent permitted by law, the joint Special Administrators do not assume any responsibility and will not accept any liability in respect of this statement of proposals.

Richard Heis and Michael Robert Pink are authorised to act as insolvency practitioners by the Institute of Chartered Accountants of England and Wales. Richard Dixon Fleming is authorised to act as an insolvency practitioner by the Insolvency Practitioners Association. The joint Special Administrators act as agents for the Company and contract without personal liability. The appointments of the joint Special Administrators are personal to them and, to the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability to any person in respect of the statement of proposals or the conduct of the special administration of the Company.

# Glossary of terms

<b>Act</b>	The Insolvency Act 1986 (as amended)	<b>FX</b>	Foreign Exchange
<b>Affiliate(s)</b>	A company or companies within the MFG Holdings Group	<b>GB</b>	General Brokerage
<b>ASIC</b>	Australian Securities and Investment Commission	<b>GMRA</b>	Global Master Repurchase Agreement
<b>ASX</b>	Australian Securities Exchange (specifically, ASX Clear (Futures) Pty Limited)	<b>GMSLA</b>	Global Master Securities Lending Agreement
<b>Authorities</b>	The Bank of England, the Treasury and the FSA	<b>Group</b>	The Company and subsidiaries
<b>Brokers</b>	Third party brokers (including affiliates)	<b>ISDA</b>	International Swaps and Derivatives Association
<b>CCP</b>	Central Counterparty	<b>LCH. Clearnet</b>	LCH. Clearnet Group
<b>CFD</b>	Contract for Difference	<b>LME</b>	London Metals Exchange
<b>Company/MFG UK</b>	MF Global UK Limited of 5 Churchill Place, Canary Wharf, London E14 5HU with company registration 01600658	<b>LMEH</b>	LME Holdings Limited
<b>Directors</b>	Directors of the Company (as at 31 October 2011): Bradley Ira Abelow, Francis Kemper Cagney, David Moses Gelber, Richard Warren Moore and Charles Graham Pendred	<b>MEFISLA</b>	Master Equity and Fixed Income Stock Lending Agreement
<b>DTC</b>	Depository Trust Company	<b>MFG Holdings</b>	MF Global Holdings Limited
<b>EMEA</b>	Europe, Middle East and Africa	<b>MFG Holdings Group</b>	MF Global Holdings Limited and its subsidiaries
<b>ETF</b>	Exchange Traded Funds	<b>MFG Holdings Europe</b>	MF Global Holdings Europe Limited
<b>F&amp;O</b>	Futures and Options	<b>MFG Inc</b>	MF Global Inc
<b>FSA</b>	Financial Services Authority	<b>MFG Services</b>	MF Global UK Services Limited
<b>FSCS</b>	Financial Services Compensation Scheme	<b>NDA</b>	Non-disclosure agreement
		<b>OSLA</b>	Overseas Securities Lending Agreement
		<b>OTC</b>	Over the Counter



## Glossary of terms (cont.)

<b>Proposals</b>	Statement of Special Administrators' proposals under Rule 59 of the Rules	<b>SIPC</b>	Securities Investor Protection Corporation
<b>Regulations</b>	The Investment Bank Special Administration Regulations 2011	<b>Special Administrators</b>	Richard Heis, Michael Robert Pink, and Richard Dixon Fleming of KPMG LLP
<b>RTM</b>	Repo to Maturity	<b>Special Administration Order</b>	The Special Administration Order granted by the High Court of Justice, Chancery Division, Companies Court, No. 9527 of 2011
<b>Rules</b>	The Investment Bank Special Administration (England and Wales) Rules 2011	<b>TSA</b>	Transitional services agreement
<b>Secured Creditors</b>	Citibank International Plc, Citibank NA, European Central Counterparty Limited, The Royal Bank of Scotland Plc and Euroclear Bank SA	<b>US</b>	United States of America
<b>SIPA</b>	Securities Investor Protection Act	<b>Weil</b>	Weil, Gotshal & Manges
		<b>\$</b>	United States dollar (unless otherwise stated)

The references in these Proposals to the Act, Rules or Regulations are to Schedule B1 of the Insolvency Act 1986 (as amended), the Investment Bank Special Administration (England and Wales) Rules 2011 and The Investment Bank Special Administration Regulations 2011 respectively.

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# Executive summary

# Executive summary

- Richard Heis, Michael Pink and Richard Fleming of KPMG LLP were appointed Special Administrators of the Company at 5pm on 31 October 2011, by order of the High Court following an application by the Directors of MF Global UK Limited.
- This appointment followed the filing for Chapter 11 bankruptcy protection in the US by MFG Holdings and MF Global Finance USA Inc on 31 October 2011. On 31 October 2011 the SIPC instigated the SIPA liquidation of MFG Inc by a petition to the US District Court for the appointment of a SIPA trustee.
- The Company was incorporated on 27 November 1981 and is a wholly owned subsidiary of MFG Holdings Europe, which in turn is a subsidiary of MFG Holdings, a company incorporated in the State of Delaware, USA.
- The Company was a broker-dealer in commodities, fixed income, equities, foreign exchange, futures and options and also provided client financing and securities lending services.
- Richard Heis, Michael Pink and Richard Fleming were also appointed as administrators of MFG Services on 31 October 2011; it provides employee and pension services in relation to the MFG UK operations. They were subsequently appointed administrators to MF Global Overseas Limited and MF Global Finance Europe Limited on 2 November 2011.
- This report sets out the Special Administrators' Proposals and provides an update of progress in the special administration to date.

## Creditors' meeting

- The Special Administrators have convened a meeting of creditors and clients with claims, pursuant to Rule 61, to enable creditors and clients to consider their Proposals and to decide whether a creditors' committee should be formed.
- A full explanation of the conduct of this meeting is attached as Appendix 3.
- The meeting will be held at 11:00am on 9 January 2012 at the Barbican Centre, Silk Street, London, EC2Y 8DS.

- The voting process is different depending on whether you are a client entitled to a claim on the segregated client money pool, a client who is claiming client assets or an ordinary unsecured creditor (which will include clients of the Company that do not have rights to claim against the segregated client money or client asset pools). Different forms have been provided for each.
- To assist clients and creditors we have attached, at Appendix 3, a guide entitled: 'Questions and Answers regarding the initial meeting of clients and creditors and the creditors' committee'.

## Special Administrators' Objectives and Strategy

- The Special Administrators' statutory objectives ('Objectives') are set out by the Regulations, namely:
  1. to ensure the return of client assets as soon as is reasonably practicable;
  2. to ensure timely engagement with market infrastructure bodies and the Authorities; and
  3. to either rescue the Company as a going concern or wind it up in the best interests of the creditors.
- In this case a rescue of the Company as a going concern was not possible.
- There is no significance to the order of the Objectives. In practice the Special Administrators have focused on all three, and this has given rise to a number of other objectives set out below, together with our strategy to achieve those objectives.

## Executive summary (cont.)

Objective	Strategy
<b>Client assets (including client monies)</b>	
Provide information to clients regarding timeline and process	<ul style="list-style-type: none"> <li>■ Website and individual correspondence with clients.</li> </ul>
Gather in client monies and assets from third party banks, exchanges and CCPs	<ul style="list-style-type: none"> <li>■ Negotiate with all third parties for the return of client monies and assets.</li> </ul>
Return client assets to clients	<ul style="list-style-type: none"> <li>■ Identify assets where ownership is clear and return to clients.</li> <li>■ Where ownership issues are unclear, set a bar date (not done at this stage).</li> </ul>
Return client monies to clients	<ul style="list-style-type: none"> <li>■ Solicit client monies claims.</li> <li>■ Update statements for post-administration entries.</li> <li>■ Agree claims.</li> <li>■ Calculate distribution percentage based on monies gathered in and likely claims on client pool, incorporating a prudent reserve.</li> </ul>
Ensure regular dialogue with FSA	<ul style="list-style-type: none"> <li>■ Regular meetings and calls with FSA.</li> </ul>
<b>Market infrastructure bodies</b>	
Provide information and assistance to allow market infrastructure bodies to carry out their functions	<ul style="list-style-type: none"> <li>■ Immediate contact with major exchanges and CCPs.</li> <li>■ Office space and access to staff provided to exchanges and CCPs.</li> <li>■ Allowing transfer of client positions and operation of default rules.</li> <li>■ Information provided to allow reconciliation of client positions to exchanges and CCPs.</li> <li>■ Cooperating with exchanges to allow clients' futures and options positions to be closed or transferred to other brokers.</li> <li>■ Working with exchanges and CCPs to remove unsettled trades from settlement systems.</li> </ul>
<b>Winding up in best interests of creditors</b>	
Getting in house and other non-client assets	<ul style="list-style-type: none"> <li>■ Immediate contact with banks, exchanges and CCPs.</li> <li>■ Negotiation for return of funds and resolution of legal disputes.</li> <li>■ Statutory meetings to appoint creditors committee and approve proposals.</li> <li>■ Protection of assets belonging to or claimed by the Company.</li> </ul>

## Executive summary (cont.)

Objective	Strategy
Management of market risk	<ul style="list-style-type: none"> <li>■ Agreement of necessary permissions with FSA.</li> <li>■ With the Company senior staff, identify and monitor open market risk.</li> <li>■ Closing out where necessary to minimise 'naked' (one-sided) positions in the market.</li> <li>■ Eliminating open positions where possible.</li> </ul>
Realising other assets	<ul style="list-style-type: none"> <li>■ Marketing all saleable assets.</li> <li>■ Negotiating sales of in-demand assets such as holdings in exchanges, certain teams and technology platforms.</li> </ul>
<b>Other</b>	
Ensuring continuity of employment for MFG Services employees with essential knowledge and skills	<ul style="list-style-type: none"> <li>■ All 727 employees were retained for November. Beyond that incentive arrangements were put in place for retention of selected staff.</li> </ul>
Engagement with other MFG Global Holding Group entities	<ul style="list-style-type: none"> <li>■ Lines of communication opened up with other group companies.</li> </ul>
Ensuring continuity and integrity of IT services	<ul style="list-style-type: none"> <li>■ Identify critical business systems.</li> <li>■ Confirm the ongoing operating model for the business and identify systems and data needs for close-out and reporting.</li> <li>■ Design databases and systems for agreeing client and creditor claims and making distributions.</li> </ul>
Manage client and estate assets appropriately	<ul style="list-style-type: none"> <li>■ New bank accounts set up with unrelated banks.</li> <li>■ Solicitation of investment manager.</li> </ul>

### Current position

- On 28 November 2011, the Special Administrators announced that all clients with client asset claims were invited to submit claims from 8 December 2011. To date, no bar date (as defined in the Special Administration Regulations) has been set for claims against client assets.
- On 28 November 2011, the Special Administrators announced that all clients with client money claims were invited to submit claims by 30 March 2012. The Special Administrators proposed to make an interim distribution of client money to claimants with agreed claims, subject to the issues discussed later in this document. This is intended to allow a return of a proportion of client funds before 30 March 2012.

## Executive summary (cont.)

### Current position (cont.)

- On 28 November 2011, the Special Administrators issued a notice of intended dividend to creditors. Proofs may be lodged at any point up to and including 30 April 2012. The Special Administrators intend to make an interim distribution to creditors within the two months from 30 April 2012.
- Such an interim distribution will be subject to, or at the least calculated with reference to, our ability to reserve for all potential claims. There are some complex issues regarding the application of close-out adjustments and final determination of these may require the assistance of the Court.
- As at 15 December 2011:
  - There were no material open trades on the exchanges.
  - £594 million representing 82% of segregated funds have been collected.
  - £201 million of funds have been collected for the estate.

**Background and  
events leading to the  
appointment of  
Special  
Administrators**



# Background and events leading to the appointment of Special Administrators

## Brief history

- The Company was a major part of the MFG Holdings Group handling its European business. It was an operating subsidiary of MFG Europe, which in turn was a wholly owned subsidiary of MFG Holdings, which is the ultimate parent company. MFG Holdings is a company incorporated in the State of Delaware, USA, whose securities are quoted on the New York Stock Exchange. As at the quarter ended 30 September 2011, the Company alone accounted for some 25% of Group revenue, and around 27% of the Group's total headcount (per Company records).
- The registered office, and main administrative headquarters of the Company, is situated at 5 Churchill Place, Canary Wharf, London, United Kingdom, E14 5HU.

## Company business

- The Group was a broker-dealer in commodities, fixed income, equities, foreign exchange, futures and options and also provided client financing and securities lending services. The Group operated globally. Its principal operations were located in the US, Australia, Singapore, India, Canada, Hong Kong, Japan and the United Kingdom.
- The Company was an intermediary broker providing agency services, matched-principal execution and clearing services for exchange-traded and OTC derivative products as well as for non-derivative foreign exchange products and securities in the cash markets. It was the largest Broker on LME; the third largest participant on the ICE futures market in terms of volume of transactions; and the fourth largest on Liffe.
- The Company provided these products through dedicated teams operating across a broad range of trading markets, including: interest rates, equities, currencies, energy, metals, agricultural and other commodities.
- An Australian branch provided clients with access to the Sydney Futures Exchange.

- The Company's revenues were derived from three main sources:
  - As agent, from commissions generated from execution and clearing services;
  - As principal, from revenue generated from client facilitation and proprietary activities; and
  - Net interest income from cash balances in client accounts maintained to meet margin requirements as well as interest related to collateralised financing and principal transactions.
- The Company served a worldwide client base comprising professional and retail customers. As at 30 September 2011, the Company held 10,431 live client accounts.

## Regulatory environment

- The Company is authorised in the UK by the Financial Services Authority and has the following permission to carry on regulated activities:
  - Advising on investments (except on pension transfers and opt-outs).
  - Agreeing to carry on a regulated activity.
  - Arranging deals in investments.
  - Arranging, safeguarding and administering assets.
  - Causing de-materialised instructions to be sent.
  - Dealing in investments as agent.
  - Dealing in investments as principal.
  - Making arrangements with a view to transactions in investments.
  - Managing investments.
  - Operating a multilateral trading facility.
  - Safeguarding and administering assets (without arranging).

# Background and events leading to the appointment of Special Administrators (cont.)

## Regulatory environment (cont.)

- The Company is a clearing member of the ASX, but is exempted from holding an Australian financial services licence under relief provided by the ASIC as it is regulated by the FSA. The Company's Australian branch is regulated locally.

## Financial difficulties leading to the Special Administrators' appointment

- MFG Holdings filed for protection under Chapter 11 of the US Bankruptcy Code on 31 October 2011; on the same day SIPC instigated the SIPA liquidation of MFG Inc by a petition to the US District Court for the appointment of a SIPA Trustee. We understand these actions were taken following the collapse of efforts to sell the MF Global Holdings Group to a third party.
- During the previous week MFG Holding's share price had dropped from a starting price of \$3.70 down to a closing price of \$1.20. Furthermore, there was a steady withdrawal of customer funds following an announcement on 25 October 2011 of a significant and unexpected second-quarter loss, which resulted in ratings agencies downgrading MFG Holdings' debt.
- The MF Global Holdings Group, through MFG Inc, a US regulated affiliate, had significant exposure to European sovereign debt under trades known as 'repo to maturity' or 'RTM' trades. These trades totalled approximately \$6.3 billion. While MFG Inc was the principal on these trades, the Company intermediated in these trades with the European repo counterparties and was liable to meet any margin calls made by the counterparties in respect of those trades. In the normal course, the Company would expect to be put in funds by MFG Inc for such margin. However, following MFG Holdings' filing for protection under Chapter 11 of the US Bankruptcy Code, it became clear that this would not happen. In relation to these trades the Company received an additional margin call on 31 October 2011 in the region of \$250 million, which it was unable to meet.

- The Directors' sought to evaluate whether the Company would be able to wind down its business on a solvent basis, without the need to file for any formal insolvency process. However, by reason of the developments in the US and the actions of counterparties, exchanges and settlement agents, including the \$250 million margin call, it became clear that the Company was likely to become unable to pay its debts. As a result the Directors resolved to place the Company into special administration. FSA approval was provided as is required by the special administration regime.
- Insolvency practitioners from KPMG LLP became involved with the Company on the afternoon of Friday 28 October 2011 when it became apparent to the Directors that insolvency may not be able to be avoided. A team of staff from KPMG LLP and Weil attended at the Company's head office over the weekend ahead of the appointment on Monday 31 October 2011 to commence contingency planning and, ultimately, to assist the Directors in seeking the appropriate court order.
- With some 38,000 customers, 3 million positions and £100 billion of notional value the bankruptcy of MFG Inc has been described as the eighth largest corporate failure in US history. In comparison MFG UK, representing over a quarter of the MF Global Holding Group's business, is likely in itself to be one of the largest UK insolvencies in the last decade.

## Financial information

- The Company's draft balance sheet at 28 October 2011 is attached as Appendix 2 under both UK and US GAAP. This shows gross assets of \$21.4 billion (UK GAAP) or \$8.5 billion (US GAAP). Net assets were reported at \$368 million (UK GAAP), or \$406 million (US GAAP). In addition there was a further solvency buffer available to the Company in the form of a \$250 million subordinated debt from MF Global Finance Limited.
- There is no outstanding security over the assets of the Company which would allow for the appointment of an Administrator or Administrative Receiver.

## Background and events leading to the appointment of Special Administrators (cont.)

### Statement of prior professional relationships

- The Special Administrators carried out a review of KPMG LLP's prior professional relationships with the MFG Holdings Group and identified the following engagements:
  - Two tax advisory engagements in the UK for the Company in 2009 and 2011 with fees totalling less than \$58,000.
  - Three tax advisory engagements in the United States of America with MFG Inc in 2010 and 2011, with fees totalling less than \$170,000.
  - Three tax and company secretarial engagements in Australia for MF Global Australia Limited, Brokerone PTY Limited and Holdings, in 2010 with aggregate fees of less than \$5,000.
  - An audit engagement of MF Global Sify Securities India Pvt Limited, a 70.15% subsidiary of MF Global Overseas Limited, in 2009; total fees were less than \$126,000. KPMG LLP ceased to be auditors in 2009.
- The Special Administrators have fully considered the relevant guide to professional conduct and ethics as issued by the relevant regulatory bodies and are satisfied that the existence of these prior relationships, given their nature, size and timing, does not create any conflict of interest or threat to independence in achieving the objectives of the special administration.

# **Trading overview and Special Administrators' strategy**

# Trading overview and Special Administrators' strategy

## Overview

The Company operated as a broker-dealer with a significant proportion of its business relating to the facilitation of client trades. These activities were predominantly through exchanges or direct with counterparties under relevant agreements (ISDAs, GMRA's etc). In relation to the non-exchange client business, the Company typically entered into offsetting trades to mitigate market risk.

The main product areas traded were as follows:

- Exchange traded futures and options.
- Fixed income
- OTC foreign exchange trading
- Equities
- Contracts for difference
- Spread betting.

Generally the Company offered trading on global markets to an EMEA client base providing access to 60 exchanges across the world either through the Company's direct membership or through Brokers.

On appointment of the Special Administrators MFG UK had approximately 1.6 million open exchange-traded and OTC positions.

The objectives of the Special Administrators in relation to trading matters were to:

- Preserve the assets of the estate;
- Minimise liabilities, risk and potential claims in the administration;
- Realise the business and assets of the Company for value although, with no real prospect of an immediate sale as a going concern, the Special Administrators' strategy moved rapidly to the wind down of the business.

A significant focus of the Special Administrators in the initial days following appointment was identifying market risk in relation to the business of the Company, in particular arising from the 1.6 million open positions and in relation to unsettled or failed trades which had not settled due to the special administration on 31 October 2011.

The Special Administrators engaged specialist KPMG resources to work alongside the Company's traders and risk management teams to:

- Facilitate the transfer of exchange traded positions where possible.
- Seek to ensure the orderly liquidation of non transferred exchange traded positions.
- Identify and manage market risk in relation to the other areas of the Company's business.

The management of market risk was challenging in the initial days after appointment, given significant market volatility caused by the Eurozone crisis and the different approaches adopted by the various exchanges on which the Company traded. Certain exchanges issued default notices in the initial days of the special administration and closed out positions while other exchanges did not issue default notices and/or did not close out for a period to give an opportunity for clients to transfer their positions to alternative brokers.

The effect of this was generally to require the Special Administrators to keep open client positions in order to reduce the Company's exposure to open positions on the exchanges. When the exchanges, clearing houses or Brokers notified us that a position was closed out we would close out the client leg and notify the client accordingly.

A blue trapezoidal graphic on the left side of the slide, with a dark blue top and bottom edge and a lighter blue slanted right edge.

# Principal product areas

# Futures and options

## Issues

- Given the Company's specialism in commodities and metals transactions, it was necessary to work closely with exchanges and brokers to manage the physical delivery of commodities/metals arising from positions that expired or were due to expire in the days around the time of appointment.
- Given the Company's leading position in several markets and the size of its clients' positions, certain client trades were likely to have had market wide impacts on prices if they were not wound down in an orderly and co-ordinated manner.
- The manner in which the MFG Holdings Group's activities were organised meant that the Company did not always have direct access to exchanges, instead using other MFG Holdings Group companies to transact with certain exchanges. Once the other MFG Holdings entities entered their own separate bankruptcy proceedings, visibility over this activity disappeared.
- In order to verify positions, assess risk and pursue recovery of assets the Special Administrators had to deal with some 60 exchanges globally through both direct memberships or intermediate brokers.
- Each of the individual exchanges, clearing houses and brokers operated their own default protocol as set out in their rules.
- At the date of appointment approximately \$0.7 billion of segregated funds (plus additional non segregated funds) were held at exchanges, clearing houses and Brokers.
- In the days following the Special Administrators' appointment a number of exchanges issued default notices and took steps to liquidate the positions of, or relating to, the Company's clients. The operation of the default rules of a recognised exchange is protected by statute and has priority over insolvency laws otherwise applicable.

# Futures and options (cont.)

## Objectives

- To engage with the various exchanges and clearing houses shortly following appointment to establish the process for the transfer of open positions.
- Identify risk positions and ensure orderly liquidation to mitigate potential impact on the estate and/or particular markets of the liquidation process.
- Recover segregated and non segregated funds held by the exchanges and clearing houses.
- Identify and retain key staff to support and facilitate the transfer, liquidation and reconciliation process.
- Communicate with clients in relation to the transfer process for relevant exchanges.
- Establish protocols with affiliates to address omnibus account issues.
- Establish default rules for each exchange clearing house and third party Broker, and ensure default rules complied with.
- Recognise obligations under Part VII of the Companies Act 1989.
- Liaise with FSA in relation to the various exchange/market issues.

## Strategy

- Work with exchanges, clearing houses and Brokers to help facilitate where possible the orderly transfer of positions to new brokers.
- Provide office space and access to Company staff to the exchanges and clearing houses to facilitate the implementation of an orderly transfer or wind down of the open positions.
- Provide information to the exchanges and clearing houses to enable the reconciliation of client positions.
- Monitor and manage market risk in conjunction with the exchanges (e.g. physical delivery issues, impact of liquidation of significant positions on particular markets).
- Maintain regular dialogue with the exchanges to ensure the recovery of segregated and non segregated funds, where possible, during the wind down process.
- Book liquidation trades and reconcile the Company records to the termination statements once exchanges, clearing houses and Brokers have provided final termination statements.
- Issue updated and reconciled statements to clients.



## Futures and options (cont.)

### Current position

- All open positions at the time of appointment have been transferred or closed out with the exception of a small number of immaterial illiquid positions.
- As at 12 December 2011, we have recovered approximately \$0.5 billion of segregated funds held by clearing houses, exchanges and Brokers. This represents the bulk of segregated funds held at non-MFG Holdings Group entities.
- The Special Administrators continue to seek to recover the balance of segregated funds and non segregated funds held by exchanges, clearing houses and Brokers, some of which may be delayed pending the issue of final liquidation statements.
- The Special Administrators and MFG UK staff continue to work with clearing houses, exchanges and Brokers to obtain final termination statements.
- Where final termination statements have been received, the Special Administrators and Company staff are booking the information in the Company's systems and conducting a reconciliation between the Company's records and the records of the clearing houses, exchanges or Brokers.
- In conjunction with Company staff, the Special Administrators will conduct a full review of termination statements and methodology to ensure compliance with the default rules.
- The Special Administrators intend to issue statements to clients with exchange traded positions once all positions have been booked and reconciliations performed.
- The Special Administrators will continue to provide clients with updates via the MF Global website on the process towards reconciliation and the issuing of client statements.

# Fixed income

## Issues

- At the date of appointment, the total outstanding RTM notional was approximately \$6.3 billion and collateral of approximately \$720 million was held by the repo counterparties. The Company also provided repo financing to MFG Inc in order for MFG Inc to fund its outright bond positions through repo to maturity (RTM) trades on a back-to-back basis with repo counterparties including clearing houses. In the days following appointment, the major repo counterparties took steps to liquidate the underlying margin collateral.
- As a result of the special administration approximately 125 fixed income trades did not settle.
- The Company provided repo financing services to a number of customers under GMRA agreements which were terminated by the customers as non defaulting counterparties following appointment of the Special Administrators.

## Objectives

- Terminate RTM repo positions with MFG Inc in line with terminations notified by CCP.
- Enter regular dialogue with counterparties to monitor close out process of RTM trades with the aim of maximising the return of excess margin to the estate.
- Review the RTM termination valuations to obtain assurance that valuations are compliant with the underlying agreements.
- Prepare valuation statement for MFG Inc leg of the RTM trades.
- Identify counterparties to the repo client facilitation business operating under GMRA agreements and ensure valuation statements received are reviewed to obtain assurance that valuations are compliant with the underlying agreements.
- Identify residual outright bond positions taking into account failed settlements and cancellations. Liquidate identified residual holdings.

## Strategy

- Meetings with the major counterparties to the RTM trades to ensure visibility of the close out process.
- Request all relevant close out information on a daily basis and in the context of the available market data.
- Review GMRA termination statements received from counterparties.
- Notify MFG Inc of the automatic termination of RTM positions and produce a termination statement based on counterparty termination valuations.
- Use the Company's systems to identify existing fixed income positions and perform reconciliations taking account of counterparty fails and subsequent cancellations.
- In conjunction with the Company staff, progress a strategy for the orderly liquidation of residual positions taking into account market risk, liquidity, regulatory and practical settlement issues.

## Fixed income (cont.)

### Current position

- In relation to the RTM trades, the back-to-back counterparties executed a number of replacement repo trades to reinstate their positions and the costs incurred in liquidation have been set off against the margin posted by the Company.
- GMRA termination statements are being reviewed by the Special Administrators and the Company to ensure compliance with the agreements.
- The Special Administrators in conjunction with Company staff will progress the cancellation of outstanding instructions for failed settlements and performing reconciliations of positions held by the Company as result of failed settlements once reconciliation processes have been concluded.
- The Special Administrators are implementing the strategy for the orderly liquidation of residual (non RTM) fixed income positions in a manner that maximises value for clients and the estate.

# OTC foreign exchange contracts

## Issues

- On appointment there were around 200 clients under the Company's Standard Terms of Business. There were also some 15 bank counterparties under standard ISDA contracts which MFG UK used to hedge its market risk.
- At the date of appointment the Company had approximately 25,000 open foreign exchange trades including spot, forwards and options on a wide range of deliverable (and a few non-deliverable) currencies, which needed to be dealt with.
- The ISDA FX counterparties issued termination notices to the Company in accordance with their rights under the ISDAs within the first week.

## Objectives

- Monitor termination by hedge counterparties in the days following appointment and establish the appropriate time to close out customer positions.
- Establish the terms under which clients traded with the Company (whether under the Company's Standard Terms of Business or other terms).
- Communicate with clients in relation to the close out of positions.
- Identify intra-group counterparties with open foreign exchange trades and terminate under the relevant agreements.
- Review ISDA termination statements to obtain assurance that valuations are compliant with the underlying agreements.
- Calculate close out values and reflect in the Company's books and records and client statements.

## Strategy

- Verify receipt of termination notices from all ISDA counterparties.
- Contact all clients (per the Company's records) to inform them of the close out of their positions.
- Establish a process for the review of ISDA termination statements provided by the counterparties to ensure that valuations are compliant.
- Issue notices of termination to a number of intra-group counterparties and commenced preparation of termination statements.
- Establish a process for the booking, reconciliation and final preparation of customer statements using existing Company systems and MFG Services staff.

## OTC foreign exchange contracts (cont.)

### Current position

- All FX open contracts were closed out by 4 November and all foreign exchange clients have been informed of close out of positions following termination of open positions by counterparties.
- The Special Administrators are implementing the booking process of closed out trades to enable reconciliation of client accounts and the production of client statements reflecting close out of all positions.
- Termination statements are being produced in relation to the close out of positions with intra-group counterparties, for despatch to clients.
- ISDA terminations are currently under review by the Special Administrators and the Company and may be subject to challenge depending on compliance with ISDA and the accuracy or (where applicable) reasonableness of close out calculations.

# Equities

## Issues

- Approximately 10,000 outstanding equity transactions failed to settle due to the special administration appointment and notices of default being issued by clearing houses, counterparties and exchanges.
- With the majority of settlement mechanisms frozen or terminated as a result of appointment, a substantial investment of resource was required to work with these parties to ensure appropriate cancellation of trades that failed to settle and to reconcile positions.
- As a result of failed transactions where the Company was selling equities, the Company was left with a significant number of positions on its books.
- The lending and borrowing agreements in relation to stock positions under GMSLA, MEFISLA, OSLA, GMRA or other market standard documentation were terminated by most parties following the appointment of the Special Administrators. This resulted in counterparties liquidating or buying in positions. The Company has not had visibility regarding the actions of counterparties in many instances.
- An estimated 1,500 stock lending and borrowing transactions failed to settle due to settlement mechanisms being frozen and require reconciliation.

## Objectives

- Identify and reconcile the current equity positions held at depositories on behalf of the Company.
- Ensure that all client assets are dealt with appropriately and assets to which the estate has no claim are returned into the custody of their legal owners as quickly as possible.
- Enter dialogue with counterparties in relation to failed trades/buy ins arising as a result of appointment and seek to address in the best interests of the estate.
- Identify residual outright equities positions taking into account failed settlements and cancellations. Liquidate identified residual holdings.
- Identify counterparties to the stock lending business operating under GMSLA, MEFISLA, OSLA and ISDA agreements and review buy-in and liquidation statements for compliance with the underlying agreements.
- Ensure books and records are appropriately reconciled.

## Strategy

- Utilise the Company's systems to identify existing equity positions and perform reconciliations against the depository records taking account of settlement failures and subsequent cancellations.
- On 23 November 2011, the Special Administrators communicated with counterparties and clients that the Company will not be settling any outstanding failed transactions giving certainty to other parties and allowing the Company to reconcile current positions.
- Progress a strategy for the orderly liquidation of existing positions taking into account market risk, liquidity, regulatory issues and practical settlement issues.
- Review all GMSLA, MEFISLA, OSLA and ISDA termination notices and buy-in and liquidation statements received from counterparties to ensure compliance with the contractual terms.

## Equities (cont.)

### Current position

- Cancellation instructions are being progressed for outstanding failed settlements and we are performing reconciliations of positions held by depositories across approximately 30 countries.
- House positions are being sold in the market. Client assets will be dealt with as set out in the client asset section of the report.
- Actions taken by counterparties, particularly with regard to stock lending agreement termination, liquidations and buy-ins, are being reviewed and reconciled to ensure accuracy of Company's books and records.
- The Special Administrators continue to deal with corporate actions in accordance with the Regulations and, where possible, client instructions.

# CFDs and spread betting

## Issues

- A significant proportion of trading in relation to CFD positions and spread betting was through 'live' internet portals; this presented a risk that was difficult to control following appointment of Special Administrators.
- The majority of the physical securities held by the Company to hedge CFD positions were lent under stock lending agreements. In the days following appointment certain counterparties terminated their stock lending agreements giving rise to a lack of transparency on the status of CFD hedges and potential market risk.
- Certain exchange traded options held by clients could be exercised into CFD positions. Exercise of such contracts was possible where exchanges did not liquidate outstanding positions.

## Objectives

- Terminate the CFD and spread betting positions in the days following appointment of Special Administrators.
- Establish the terms under which clients traded with the Company (whether under the Company's Standard Terms of Business or other terms).
- Communicate with clients in relation to the close out of positions.
- Ensure that fair and consistent pricing is applied to the close out of all client positions in line with market standard.
- Calculate close out values and reflect in the Company's books and records and client statements.

## Strategy

- Identify market risk issues where physical positions (eg hedging the CFD book) were bought in or liquidated.
- Contact all clients (per the Company's records) to inform them of the close out of their positions.
- Establish a process for the booking, reconciliation and final preparation of customer statements utilising company systems.
- Develop pricing policy to ensure pricing objectives are met.

## Current position

- The Special Administrators have terminated all CFD and spread betting contracts and notified all clients of this on 4 November 2011.
- A pricing methodology has been developed by the Special Administrators in conjunction with Weil to outline the appropriate treatment for closed out positions.
- The Special Administrators in conjunction with Company staff are progressing the booking of close out information in the Company's systems and will perform a reconciliation following the booking process.



# Terminations and failed trades

# Terminations and failed trades

## Issues

- The level of trading activity in the days prior to special administration was considerably higher than normal levels as a result of general market volatility at that time as well as clients unwinding positions with the Company. As a result of this, there were approximately 10,000 fixed income and equity securities trades that were entered into in over 30 jurisdictions in the days prior to special administration that were in the process of being settled as at 31 October 2011.
- Following the special administration, exchanges, settlement banks, central counterparties and bilateral counterparties applied their default rules to clear/cancel the outstanding trades. In some instances, this resulted in the severing of information feeds to the company. Reconciling data held in-house with that held by third parties, who have applied their default rules or termination rights to close out the positions, is a time consuming exercise, requiring a review and reversal of affected trades and consideration of the values applied on termination.
- The Company used MFG Inc as its clearing member which used the Depository Trust Company for fixed income and equity transactions in the US. MFG UK therefore had significant levels of client and house assets in DTC although at present it is impossible to quantify and reconcile the position.

## Objectives

- Re-establish links with settlement banks and CCPs.
- Clearance of unsettled and cancelled trades.
- Liquidate house assets held at third party banks and depositories.
- Ensure regular dialogue with the FSA.

## Strategy

- Identify and retain the Company's key operations staff.
- Work with exchanges, settlement banks and central counterparties to re-establish the links required to reconcile and execute settlements (e.g. control of CREST accounts).
- Work with regulators and settlement systems and clearing houses/central counterparties/counterparties to agree a basis on which unsettled trades can be deleted.
- Communicate to the market as our approach evolves to minimise the degree of market uncertainty caused as a result of failed/unsettled trades.
- Negotiate with counterparties over bilateral cancellation of transactions not subject to exchange or other cancellation rules.
- Assess the actions of the exchanges, settlement systems and settlement banks.

## Terminations and failed trades (cont.)

### Strategy (cont.)

- Assess the actions of the exchanges, settlement systems and settlement banks.
- Ensure failed trades are accounted for in client and house position reconciliations.
- Establish a protocol for the realisation of house positions (refer previous section).
- Regular meetings and calls with the FSA (in particular, the markets division).

### Current position

- On 23 November 2011, the Special Administrators announced that all fixed income and equities instructions that remained unsettled at that time would be cancelled. This allows certainty to third parties over the status of pending trades and enables the commencement of the reconciliation process.
- The Company CREST account has successfully been reactivated (for in-bound transactions only).
- A team of KPMG specialists, MFG Services staff and regulatory and banking legal specialists is focussing on the reconciliation of securities positions. Significant progress is being made. As an example, by 14 December 2011, almost all of the failed instructions (including revaluations) in the CREST system had been deleted. The team is working through the settlement activity in the remaining 29 markets on a market-by-market basis in order to reconcile and then liquidate house positions.
- Uncertainty over the quantum of house and client securities balances held in the US remains. The Special Administrators have contacted the SIPA Trustee at MFG Inc with the aim of obtaining visibility over the Company's and clients' US-based assets and establishing a protocol to enable the reconciliation and ultimate liquidation of house positions and return of client assets.

**Client money**

# Client money

## Issues

- The Company held monies on behalf of its clients in over 30 banks, clearing houses and exchanges, intermediate brokers and MFG Holdings Group entities in several jurisdictions. The timely return of these funds is predicated on the closure of open positions and the third party organisations completing their own due diligence and reconciliations on accounts and balances prior to the release of these amounts to newly-created client money accounts. Before Monday 21 November 2011, there were no client monies at all under the Special Administrators' direct control, but since then, following extensive negotiations with respective parties (whilst they have conducted their own reconciliation and review process), some 82% has been collected.
- There is limited visibility over balances held at affiliates (comprising approximately 15% of the total client money pool), which are subject to their own insolvency proceedings. The timely return of these funds will be subject to negotiations with the respective administrators/trustees for those legal entities.
- The identification of client money entitlements is complex and considerable data and documentation is needed to establish an accurate position on a client by client basis. This is further complicated by the high volumes of activity in the days prior to the date of special administration, particularly involving clients that had commenced the process of being afforded protection under the FSA's Client Assets rules, a number of which had not fully completed this process by the time the Special Administrators were appointed.
- There are also important legal decisions affecting the treatment of client money which are still being litigated through the English courts. Some of these issues may impact the correct legal treatment of client money at the Company and these issues will be clarified when the Supreme Court rules on these matters (in the case of Lehman Brothers International (Europe)), which is expected in the first half of 2012.
- The operation of the FSA's Client Money rules means that client monies are subject to pooling on insolvency. This inevitably creates a need for a rigorous process to ensure that the size of the pool of client monies and relevant costs are known before final (as opposed to interim) amounts from the pool can be distributed pro-rata to the clients with relevant claims.
- Any interim distribution will be subject to, or at the least calculated with reference to, our ability to reserve for all potential claims. There are some complex issues regarding the application of close-out adjustments and final determination of these may require the assistance of the Court.

# Client money (cont.)

## Objectives

- Provide information to clients regarding timeline and process.
- Gather in client monies from third party banks, exchanges and CCPs.
- Establish the quantum of client money entitlements.
- Return client monies to clients (as soon as reasonably practicable).
- Ensure regular dialogue with the FSA.

## Strategy

- Website and individual correspondence with clients.
- Negotiate with all third parties for the return of client funds.
- Negotiate with the administrators/trustees of MFG Holdings Group entities for the return of client funds.
- Verification of MFG UK's client money calculation as at 31 October 2011.
- Perform analysis work to establish the extent of the client money pool.
- Review of customer terms of business to establish basis of segregation.
- Liaise with the workstreams responsible for the clearance of failed and pending trades and the booking of liquidated/transferred trades.
- Solicit client monies claims.
- Update statements for post-administration entries.
- Agree claims protocol for eligible claimants under the FSCS.
- Calculate interim distribution percentage based on monies gathered in and likely claims on the client pool, incorporating a prudent reserve.
- Make interim client money distributions as soon as sufficient funds are available to make an efficient distribution and claims have been agreed, and subject to the ability to reserve for all potential claims.
- The Special Administrators may from time to time need to seek directions from the High Court on particular issues arising with respect to Client Money.
- Regular meetings and calls with the FSA.

# Client money (cont.)

## Current position

### *Client money balances*

- As at 14 December 2011, 82% (being £594 million) of the Company's client money balances was recovered by the Special Administrators.
- The Special Administrators are in negotiations with the administrators/trustees for the release of monies held at MFG Holdings Group Companies. It is likely that these discussions will continue for some time. Of the \$250 million or so of monies held through omnibus accounts with MFG Inc, approximately \$76 million relates to clients whose monies were segregated under the FSA's Client Money rules. So far none of this has been returned.

### *Client money entitlements*

- A team of KPMG specialists, MFG Services staff, and regulatory and banking legal specialists is focussing on the calculation and reconciliation of client money entitlements. This team is working alongside the various teams that are currently processing and reconciling underlying transaction balances in order to provide final client statements as soon as is possible. Our work to date has identified balances relating to certain clients that had commenced the process of being afforded protection under the FSA's Client Assets rules but which had not fully completed this process by the time the Special Administrators were appointed.
- This team is currently working through the account documentation for those accounts held between the Company and MFG Holdings Group entities in order to establish the legal status of the protection afforded to clients of the Company and to clients' affiliates. It is likely that this exercise will take some time, particularly in relation to the status of the omnibus account held by the Company for the clients of MFG Inc.

### *Claims process*

- On 28 November 2011, the Special Administrators announced that all clients with client money claims were invited to submit claims by 30 March 2012. The Special Administrators proposed to make an interim distribution of client money to claimants with agreed claims, subject to the issues set out below. This is intended to allow a return of a proportion of client funds before 30 March 2012.
- The proportion of client money to be distributed initially is dependent upon:
  - the return of sufficient funds from third party institutions;
  - quantification of the extent of the client pool and the total eligible claims thereon;
  - the ability of the Special Administrators to make adequate provision for all possible claims in respect of client money.
- It is intended that, subsequent distributions will be made in due course, once claims in relation to client money have been further resolved. As part of their reporting procedures, the Special Administrators will inform the Court of the timetable and procedure set out in the notice, including their intention to make an interim distribution.
- On 9 December 2011, the FSCS announced the process under which eligible claimants under the FSCS's compensation rules could assign their claims against the Company to the FSCS in return for compensation from the FSCS.
- Claims are now being received and processed.

**Client assets**



# Client assets

## Issues

- The identification of unencumbered client assets is complex and considerable data is needed to establish an accurate position on a client by client basis. The Company held many classes of assets on behalf of its clients in banks and depositories in several jurisdictions. These assets were held under different terms of business, some of which passed absolute title of the assets from the clients to the Company, others of which allowed for the set off of balances against other linked client balances. According to the Company's own records, the Company held approximately \$100 million of assets on a segregated basis for its clients as at 31 October 2011.
- There is limited visibility over client assets held at MFG Inc, which is subject to its own insolvency proceedings. The timely return of any such assets will be subject to negotiations with the SIPA Trustee and DTC.
- The timely return of client assets is reliant on the clearance of failed trades and close out values (see previous section) and on third party organisations completing their own due diligence and reconciliations on accounts and balances prior to the release of the securities to clients. Furthermore, in the absence of setting a bar date as defined in the Regulations, there is no certainty of title to assets. As such, to the extent the Special Administrators are able to return client assets this will be subject to some form of indemnity.
- This is further complicated by the high volumes of trade activity in the days prior to the date of special administration, particularly involving clients that had commenced the process of being afforded protection under the FSA's Client Assets rules, a number of which had not fully completed this process by the time the Special Administrators were appointed.

## Objectives

- Provide information to clients regarding timeline and process.
- Gather in client assets from third party banks and depositories.
- Establish the quantum of client asset entitlements.
- Return client assets to clients.
- Ensure regular dialogue with the FSA.

## Strategy

- Website and individual correspondence with clients.
- Negotiate with the administrators/trustees of MFG Holdings Group entities.
- Review of customer terms of business to establish basis of segregation.
- Liaise with the workstream responsible for the clearance of failed and pending trades.
- Identify assets where ownership is clear and return these to clients.
- Where ownership issues are unclear, set a bar date (not done at this stage).
- Regular meetings and calls with the FSA.
- Negotiate with all third parties for the return of client assets.

# Client assets (cont.)

## Current position

### *Client Asset balances*

- As at 14 December 2011, the majority of the client asset balances have been recovered by the Special Administrators to distribute to the clients of MFG UK.
- The Special Administrators are in the process of establishing a protocol with the SIPA Trustee to the extent that there are assets held at MFG Inc. It is likely that these discussions will continue for some time.

### *Client Asset Entitlements*

- A team of KPMG Specialists, MFG Services staff and regulatory and banking legal specialists are focussing on the reconciliation of client asset entitlements. This team is working alongside the various teams that are currently processing and reconciling underlying transaction balances in order to provide final client statements as soon as is possible. Client accounts will need to be ascertained to ensure that debit balances are cleared before assets are released.
- Our work to date has identified assets relating to a number of clients that had commenced the process of being afforded protection under the FSA's Client Assets rules which had not fully completed this process by the time the Special Administrators were appointed.

### *Claims Process*

- On 28 November 2011, the Special Administrators announced that all client asset clients were invited to submit claims from 8 December 2011. To date, no bar date (as defined in the Special Administration Regulation) has been set for claims against client assets.
- Claims are now being received and processed. The Special Administrators have now analysed the validity of claims against 96% by market value of the client assets subject to custody protection per the company's systems. Where ownership is clear, we are in discussion with clients in relation to the return of these assets.
- It is likely that a bar date will be set in due course.

# Treasury operations

# Treasury operations

## Issues

- As MFG UK is not a bank, on appointment all of MFG UK's cash and treasury assets, its client monies and the overwhelming majority of its client and custody assets were held by third party institutions around the globe. The majority was placed at exchanges, CCPs, overseas affiliates and the banks as collateral; the largest positions were with JP Morgan, BNY Mellon, Citibank, LCH Clearnet, Euroclear, Ice Clear and MFG Inc.
- Notwithstanding MFG UK's claim on these monies, the relevant parties would only release those funds once they were comfortable that (i) they had identified and sought set-off of all counter-claims and (ii) they faced no risk of a competing third party claim to those assets. It was critical that we engaged with all these counterparties as soon as practicable to freeze accounts, obtain updated balances (to ensure we knew where all the funds were) and recover control of them.
- Without access to those funds, the Special Administrators were 'unfunded', so contingency steps were taken to negotiate post-appointment liquidity facilities with institutions, not least to pay the wages. Fortunately, this proved unnecessary as we secured release of some significant estate monies within the first 14 working days, thereby saving the estate substantial borrowing fees.
- For funds brought under the Special Administrators' control treasury procedures were needed to minimise FX and credit risk and ensure an appropriate interest rate was earned on the funds.

## Objectives

- Identify and recover all estate and client cash and assets held with third parties.
- Minimise FX and credit risk, and ensure an appropriate interest rate was earned on cash and treasury assets held prior to distribution(s).
- In accordance with Rule 166 of the Regulations, as all creditor claims are to be converted into sterling as at the date of appointment (31 October 2011), all non-client assets and monies need to be liquidated and exchanged to Sterling for ultimate distribution.
- Ensure speedy recovery of client monies and assets.
- Ensure MFG UK's treasury books and records are properly updated.

## Strategy

- Retain core MFG UK treasury and finance staff to assist in identification and recovery process, and update MFG UK's books and records.
- KPMG cash management specialists engaged with MFG UK treasury team to contact all third parties holding funds, notify of appointment and request return of cash and/or assets. Continued with immediate follow-up on any issues raised by counter-parties to minimise delay in return of funds.
- Open independent, ring-fenced bank and securities accounts.
- Ensure funds (MFG UK and client) are held in financial institutions with suitable rating.
- Utilise KPMG treasury specialists and engage third party investment specialists (under negotiation) to advise on short term investment strategies and risk management.

## Current position

- As at 14 December 2011, we had recovered £594 million of client monies and £201 million of Company cash.

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**Information  
technology and  
systems**

# Information technology and systems

## Issues

- The Company is heavily dependent on a substantial IT infrastructure, consequently, one of the most urgent tasks on the appointment of the Special Administrators was to ensure continuity of the provision of such IT services and related data provision as would be needed for the orderly closing out of business and the generation of an effective audit trail of actions undertaken.
- Systems needed to be designed and implemented to facilitate timely and accurate reporting to creditors and clients both of their account information but also information specific to the special administration.
- Systems and tailored databases needed to be designed, tested and implemented to facilitate the agreement of creditor and client claims and to enable distributions to be made.
- The Special Administrators have worked with the Company's IT management to assume control over IT infrastructure, support, operation and maintenance. The Special Administrators deployed in-house IT specialists to ensure that systems are secured and operated in support of the special administration objectives.
- In addition, a team from the Special Administrators' in-house Forensic department worked to identify key data sources that needed to be preserved and set about ensuring that this was achieved.
- The IT workstream identified the mechanisms by which payments and instructions could be communicated by the Company to its customers, counterparties, exchanges, clearing houses and market utilities. These were disabled whilst the Special Administrators sought to exert control and stabilise the business.
- The Special Administrators' IT specialists then worked with the Company's IT staff to agree changes to the IT systems so that inbound SWIFT messages could be received and processed and so that statements and notifications could be processed. The SWIFT gateway was then re-opened once suitable checks and controls were in place to ensure that any such communications could be approved by the Special Administrators prior to transmission.

# Information technology and systems (cont.)

## Objectives

- To ensure continuity of the provision of IT services and data provision needed for an orderly closing out of the business and effective audit trail.

## Strategy

The Special Administrators used systems architects to quickly document the existing IT architecture in order to:

- Determine which components were critical to ongoing operation.
- Identify how the critical business systems would be impacted by the de-activation of market gateways, exchange memberships and by the non-receipt of SWIFT messages (caused by the Company being placed into special administration).
- Identify and manage the safe store of positions as at 31 October 2011.
- Identify the dependencies between the Company and the US and Asia Pacific entities of the MF Global Holdings Group.
- Create a cost profile for the services that were being requested by other MF Global Holdings Group entities.
- Establish the licences and support staff that would be required to support the special administration.
- Determine which systems could be de-commissioned or down-sized to save costs.
- Identify the systems requirements to support divested businesses following sale.
- Identify the systems that will continue to be required to support the ongoing processes of closing out positions and generating management information.
- Identify the systems and data output necessary for provision and information to the FSCS.

# Information technology and systems (cont.)

## Objectives (cont.)

- To design and implement IT systems appropriate for reporting to creditors and clients and for establishing final positions with counterparts, agreeing claims and making distributions.

## Strategy (cont.)

- Confirm the ongoing operating model for the Company and identify the systems and data needs for close out & reporting.
- Implement TSAs with affiliates and third parties where necessary.
- Establish new governance arrangements and processes to co-ordinate and control IT and Operations.
- Establish clarity over end to end systems and data architecture required for the completion of the work out and closure of the wind down process.
- Develop operational procedures to rectify breaks and to close out positions.
- Ensure control over contracts, licences and costs for IT.
- Ensure the ongoing availability, stability and integrity of the IT systems and infrastructure.
- Ensure the capture and preservation of audits trails of all adjustments and close outs input.
- Ensure the archiving of data required for subsequent audits and investigations.

## Current position

- The IT team continues to work with the Special Administrators' legal advisors to create and agree TSAs to deliver continuity of intra-company services for other Group entities during the orderly close out of positions.
- The Special Administrators' IT team continues to work with the Company's IT resources both in the UK and the US to manage the removal of outdated content from the MF Global Holdings Group web sites and to deliver amended wording, for instance providing information on which exchanges have liquidated positions.
- The IT team is working with the Company's IT resources and third party suppliers to manage distribution of client mailings.
- The IT team is developing, testing and implementing suitable databases and interfaces to facilitate the agreement of creditor and client claims and to enable timely distributions.
- The IT team is also supporting the agreement of proofs of debt/claims and vote counting for the meeting of creditors and clients.



**Finance**

# Finance

## Issues

- The Company has over 10,000 clients and dealt with a high volume of transactions on a daily basis. As at the date of appointment, there were approximately 1.6 million open positions transacted through a multitude of exchanges and markets located in over thirty jurisdictions.
- There is a very large number of accounting entries to be made to bring the books and records of the Company up to date as at 31 October 2011 and also to show the effects of the closing out of positions and defaults declared by exchanges, when the necessary information is received by the Company. Previously the Company's systems were able to process much of this automatically through electronic links to exchanges and banks; however, as a result of terminations and defaults by the exchanges and clearing houses across the markets, that were triggered following the appointment of the Special Administrators, the majority of transactions now need to be handled manually. This is a protracted and time consuming process.
- There is a substantial amount of information required from banks and market infrastructure bodies to complete the reconciliations and default related accounting entries. This can only allow final updates when received and checked.

# Finance (cont.)

## Objectives

- To identify key procedures and controls over the finance function to ensure ongoing provision of information to enable an orderly close out of transactions and accurate accounting for realisations in the special administration.

## Strategy

- Use a KPMG team with suitable skills to integrate into the Finance function and establish key procedures and controls over the Company's business and systems, which are suitable in a special administration.
- Identify and retain the Company's key finance staff.
- Identify key finance systems and liaise with the IT workstream to ensure system maintenance and integrity and to implement access to systems on a control and priority basis.
- Identify cost savings in order to adapt the cost base of the Finance function to the medium and longer term needs of the special administration.
- Incorporate specific accounting and reporting processes into the Finance function to support the orderly wind down of the Company's business and the Special Administrators' information needs.
- Establish close coordination with other workstreams to provide ongoing support to the business activities and to ensure completeness, accuracy and validation of both debtor and creditor positions.
- Identify and establish creditor liabilities for both trading and non-trading transactions.
- Identify and investigate assets and liabilities and develop systems to record and report on the current and expected future positions, to manage the realisation of assets and to prepare for the future distribution of client assets/monies and dividends to creditors.
- Establish and confirm intercompany positions with the wider MF Global Holdings Group through liaison with those entities and their management or, where relevant, appointed insolvency practitioners or equivalent.
- Support the compilation of data for the Statement of Affairs being prepared by the Company's Directors.

## Finance (cont.)

### Current position

- Immediately upon their appointment, the Special Administrators assembled a team from KPMG LLP with specialist knowledge in accounting, reporting, control and other IT systems appropriate to the business conducted by the Company. This team quickly designed and implemented new controls in the Finance function and across various supporting IT systems to give effective control of the Company's affairs. This team is continuing its work in close co-operation with staff from the Company to maintain controls and ensure output from the various systems is available to support the Special Administrators' objectives.
- Development of the framework for the agreement and reconciliation of balances with banks, exchanges, markets and other third parties is ongoing.
- Agreeing protocols with the MFG Global Holdings Group companies for the reconciliation of intercompany balances.
- Provision of financial information for management of the special administration and to prepare regulatory and other statutory returns where necessary during the special administration is ongoing.
- Information is being provided to support the early distribution of client money, client assets and distributions to creditors.
- Control and monitoring the management framework for the orderly wind-down of the Company's business is continuing.
- Work is continuing to address and support the needs of other workstreams.

# Receivables realisation

# Receivables realisation

## Issues

- There are a number of categories of outstanding debts due to the Company over a number of accounts receivable ledgers. These debts principally comprise:
  - Brokerage fees
  - Commissions
  - Rebates receivable accrued up to 31 October 2011
  - Fees due to the Company's French branch.
- The combined total balance of these ledgers was in excess of £10 million at 31 October 2011.
- Additionally there are client receivables due as a result of credit facilities granted to cover initial and/or variation margin calls.
- Recoveries may be impacted by set-off claims where clients have other trading exposures to the Company.

## Objectives

- Establish control over all debtor ledgers, ensure timely and accurate finalisation of balances and pursue collection of all outstanding amounts.

## Strategy

- Freeze all out going payments relating to 'give-up' agreements.
- Interrogate ledger balances as at the date of special administration to create a complete debtor listing.
- Issue/reissue all invoices and demand letters to clients for amounts payable to the Company.
- Retain employees reallocated to credit control responsibilities to wind-down accounts receivable ledgers.
- As derivative and FX positions close out, update system records to reflect closing position which will crystallise balances payable by clients.
- Record the application of set-off between customer accounts.
- Review of client security in relation to credit lines.

## Receivables realisation (cont.)

### Strategy

- Creation of a process to reconcile Special Administrators' cash receipts to the Company's proprietary client accounting system.
- Information and records updated to feed into overall client account reconciliation.

### Current position

- To date, demand notices have been sent to clients with 'non-segregated' balances and FX and derivative accounts totalling \$59 million. Payment of these and additional demands will be monitored and pursued. In addition, invoices have been issued for collection of outstanding brokerage commissions.
- Customer accounts are continuing to be fully updated to reflect amounts received and any set-off and security.

# Property and other fixed assets



# Property and other fixed assets

## Issues

- The Company operates primarily from modern leasehold offices at 5 Churchill Place in Canary Wharf. The lease benefits from a rent free period which expires on 25 June 2014. Service charges remain payable. It is the intention of the Special Administrators to appoint property agents to review and value the lease and, if appropriate, market and realise any value in it.
- As an FSA regulated entity, the Company had a disaster recovery plan in place. The disaster recovery site is located in Kent. The lease of that property terminates on 1 October 2012, the landlord having given written notice to the Company to vacate the property prior to the special administration. The Special Administrators are currently considering their options for a reduced scale disaster recovery site.
- The Group owns an extensive and comprehensive inventory of IT equipment, software and office equipment consistent with its brokerage and trading operations though some equipment and software is leased from MFG Europe. The Special Administrators have appointed GVA Grimley Limited to prepare an inventory and value the assets, determine which entity the assets belong to, and propose an appropriate disposal strategy.

## Objectives

- Secure occupation of properties for benefit of the special administration and the use of IT equipment.
- Obtain valuation and marketing advice in respect of all assets to maximise recoveries for stakeholders.

## Strategy

- Make contact with landlords and inform them of appointment and anticipated strategy.
- Establish details of ongoing utilities and services essential to ongoing operations.
- Instruct agents to assess and value assets and advise on marketing strategy.
- Arrange settlement of ongoing commitments.
- Agree commitments for ongoing services with suppliers and finance companies as appropriate.
- Liaise with appointed agents regarding identification of assets, valuations and disposal strategies.
- Review Company operations to identify all other sundry assets and arrange custody and/or disposal.

## Current position

- Continuing liaison with landlords and suppliers to ensure ongoing operations, including developing a strategy in respect of possible re-siting of disaster recovery centre.
- Developing the strategy for realisation of assets as they become surplus to requirements.

# Human Resources

# Human Resources

## Issues

- There were 727 employees working within the business when the Special Administrators were appointed.
- All employees were legally employed by the separate legal entity MFG Services although they all worked exclusively in the Company's business. Michael Pink, Richard Heis and Richard Fleming were also appointed as Administrators of MFG Services on 31 October 2011.
- MFG Services recharges all employee costs to the Company and a management fee is being negotiated in respect of these services.
- Whilst the employee workstream overlaps between MFG Services and the Company, we have provided an overview of the key objectives and strategy of this workstream below.

## Objectives

- To communicate on a timely basis with all employees and to keep them regularly updated on proposed redundancy and retention policies.
- To ensure that the number and skills of retained employees meet the requirements for the wind-out of the business and to meet the objectives of the special administration.

## Strategy

- The Administrators of MFG Services have maintained a regular and open dialogue with employees following their appointment. This included making a commitment to all employees in the first few days of the administration that they would be paid until at least the end of November 2011.
- Employees were further advised that a retention bonus scheme would be introduced for and covering a large number of employees including key employees. As the majority of positions were expected to have been closed out by the end of November 2011, the Administrators announced that they expected significant redundancies to be at this time.
- Consultations were held with the Company's senior management as regards to which employees were required in both the short and long term including identification of employees not required beyond the end of November 2011. Following these consultations the Administrators were able to advise all employees of their position on 11 November 2011.
- The Administrators of MFG Services made 390 employees formally redundant on 30 November 2011 and a further 6 employees have resigned in the period since 31 October 2011. 37 employees have transferred to the purchaser of the metals business.

## Human Resources (cont.)

### Current position

- A detailed redundancy and retention plan has been established and is being regularly reviewed to ensure it meets resource requirements.
- A payroll bureau is being introduced to enable the payroll to be paid from special administration funds at the end of December 2011 and thereafter.
- An agreement is being sought between MFG Services and the Company in respect of management services provided in respect of the continued employment of the workforce.
- We have been very pleased with the help we have received from management and staff at MFG UK, who have been very professional and focussed on the well being of their clients.

# Overseas affiliates

# Overseas affiliates

## Issues

- Prior to the 31 October 2011 insolvency filings in the US and the UK, the MF Holdings Global Group had operated largely as a single international enterprise. For example, MFG UK's finance and management team provided material input into the global accounting functions of the group, but much of the IT systems used were licensed for the Group through MFG Holdings. The commencement of local bankruptcies broke those traditional 'informal' links.
- The main US trading entity was MFG Inc, which is under the control of the SIPA Trustee; a number of other key overseas affiliates filed for their own local bankruptcy protections in the days following 31 October 2011.
- A number of the overseas affiliates are either debtors to MFG UK, hold assets or monies on MFG UK's behalf, or are creditors or clients.

## Objectives

- Facilitate the efficient wind-down of MFG UK's operations.
- Expedite the recovery of assets that were located with these entities.
- Expedite confirmation of possible claims from affiliates.
- Ensure overseas affiliates bear appropriate share of costs of MFG UK services they utilise.
- Minimise risk and liability through establishment of 'hold harmless' information sharing protocols with affiliates.

## Strategy

- Identify all interdependencies between affiliates on data, human resources and systems.
- Contact all of the major trading affiliates around the world and establish new protocols and commercial arrangements (TSAs)
- Where possible, restrict affiliate access to data and systems until protocols and TSAs in place.
- Work with MFG UK's operations and finance teams to establish claims on affiliates and identify and reconcile claims from affiliates.

## Current position

- Draft protocol on information sharing between all major international affiliates agreed in principle; now subject to documentation.
- Draft TSAs prepared; subject to further commercial discussions.
- Inter co balances yet to be reconciled with affiliate positions; awaiting protocols.

# **Sale of business and investments**

# Sale of business and investments

## Background

- The Company operated in a number of trading divisions and product areas. In addition, the Company held shareholdings in a number of companies operating in the financial sector. Immediately upon appointment, given the potential 'wasting asset' nature of the Company's trading divisions, the Special Administrators instructed their in-house Corporate Finance specialists to advise them on the saleability and potential value of these assets. We summarise below actions to date.

## Metals division

### *Position on appointment*

- The Metals division was a leading LME ring dealing member providing execution and clearing of LME and OTC products to assist commercial customers in hedging their price risk in metals markets. The Metals division also served institutional investors and financial services firms in the Americas, Europe, and the Asia-Pacific region.
- The Metals division operated as a standalone division within the Company consisting of around 50 front office staff (37 employed by MFG Services with the remainder comprising employees made redundant by or having resigned from the US and Asian businesses), client documentation, lists and credit records. All trading and customer activity was suspended on 31 October 2011.

## Objectives

- To realise value, if possible, for the business, assets and staff of the Metals division without incurring further holding costs.
- Ensure any sale enabled the Company to retain the capacity to complete client account reconciliations.

## Strategy

- The Discussions were held with management to understand the business and ensure that value could be realised. This determined there to be realisable value if the Metals team could mainly be kept together.
- Assurances were obtained from senior management that the team could be held together until the week commencing 14 November 2011, after which point there would be increased risk of losing key staff to rivals and value dissipating.
- The Company's Metals division was offered for sale on 8 November 2011 alongside an option to acquire its 25,000 ordinary 'B' shares in LME (although these were ultimately sold as part of a separate sale process).
- In order to maximise value an accelerated sale process was pursued and a wide audience of potential buyers was approached, these included direct expressions of interest, warm leads and other potential strategic buyers.



## Sale of business and investments (cont.)

### Current position/outcome

- A total of 25 NDAs were sent out to bidders of which seven were executed. Upon receipt of signed NDAs, bidders were sent an investment overview prepared in conjunction with management and a process letter indicating a deadline for bids of 17:00 GMT on 14 November 2011. In addition to accessing an electronic data room, bidders were also encouraged to meet management to gain access to additional information and ask further questions.
- Two submitted offers for the business were received by the deadline. One of these offers was more attractive because due diligence had been completed.
- A deal was agreed on 25 November 2011 with the preferred bidder paying a seven figure dollar sum.
- The preferred bidder also assumed the Metals division employees under TUPE from MFG Services, hence safeguarding employment and saving further employment and redundancy costs, providing a substantial saving for MFG UK.

# Sale of business and investments (cont.)

## Futures and options ('F&O')

### *Position on appointment*

- The Company's F&O brokerage business consisted of 60 London based brokers (retained through MFG Services), client documentation and lists and credit records. All trading and customer activity was suspended on 31 October 2011.

## Objectives

- To realise value, if possible, for the business, assets and staff of the F&O division without incurring further holding costs.
- Ensure any sale enabled the Company to retain the capacity to complete client account reconciliations.

## Strategy

- Discussions with management to understand the business and ensure that value could be realised. This determined there to be realisable value only if the F&O team could be kept together.
- An electronic data room was made available to accelerate buyer diligence.

## Current position/outcome

- The feedback highlighted a serious risk of not being able to keep the team together. The team was already fragmented and all of the highest producing staff had received offers to join other firms with some being offered substantial sums to join competitors.
- Management had already been involved in negotiations with a party with whom they had exchanged information but they had expressed serious doubts about the likelihood of a sale being completed. It was clear that there were no proprietary systems or software and that high revenue generating employees were already holding discussions with alternative employers.
- The Special Administrators concluded that a sale process was unlikely to generate value for creditors and therefore proposed not to pursue a sale process of the F&O business.

# Sale of business and investments (cont.)

## General brokerage ('GB')

### *Position on appointment*

- The GB division operated as a standalone division and offered a dealing, brokerage and clearing business delivering access to a full range of futures, FX, securities and cleared OTC products. For the purposes of the special administration process, the CFDs and Spreads businesses (which were also part of the wider Retail Brokerage division) were marketed separately due to their perceived separability and discrete potential buyer audience.
- As a result of the special administration, all trading activity was suspended.

## Objectives

- To realise value, if possible, for the business, assets and staff of the GB division without incurring further holding costs.
- Ensure any sale enabled the Company to retain the capacity to complete client account reconciliations.

## Strategy

- Discussions with management to understand the business and ensure that value could be realised. Management's view was that the team could be held together long enough to find a potential buyer for the core division.
- Electronic data room was made available to accelerate buyer diligence.
- Conduct an accelerated sale process, reflecting limited time to conclude any sale.

## Current position/outcome

- It was determined that much of the value of the business relates to the 58 professional staff, associated client documentation relationships, lists and credit records. Feedback from senior management highlighted a serious risk of not being able to keep this team together; the team was already fragmented and all of the highest producing staff had received offers to join other firms with some being offered substantial sums to join competitors.
- Management had already been involved prior to the special administration in negotiations with a party with whom they had exchanged information; however, they had expressed serious doubts about the likelihood of a sale being completed.
- In order to maximise value an accelerated sale process was pursued and a wide audience of potential buyers was approached, these included direct expressions of interest, warm leads and other potential strategic buyers.
- Nine potential bidders were approached and sent NDAs. Three bidders executed NDAs and were sent an investment overview prepared in conjunction with management and a process letter outlining the timetable for the process.
- Bidders were also granted access to management and an electronic data room to review additional information and ask further questions.
- Despite the initial interest, no bids were received as potential buyers perceived that it was more economical to recruit top performing brokers and sales staff on an individual basis. Therefore, no further active attempt to sell the GB division was undertaken.

# Sale of business and investments (cont.)

## CFDs and spreads

### *Position on appointment*

The CFD and Spreads businesses comprised a total of 26 staff, various proprietary software platforms (including the Touch and Phoenix systems) and client databases. The CFD business consisted of ten front office staff, one middle office and four IT support staff with a diverse customer base. The Spreads business consisted of eight front office staff and three IT staff with a diverse and retail focused customer base.

On special administration, all trading activity for CFD and Spreads businesses was suspended. Client monies held in trading accounts were frozen and clients were not able to access their accounts.

## Objectives

- To realise value, if possible, for the business, assets and staff of the CFD and spreads divisions without incurring further holding costs.
- Ensure any sale enabled the Company to retain the capacity to complete client account reconciliations.

## Strategy

- Discussions with management to understand the business and ensure that value could be realised. Management's view was that the team could be held together long enough to find a potential buyer for the core division.
- Electronic data room was made available to accelerate buyer diligence.
- Conduct an accelerated sale process, reflecting limited time to conclude any sale.

## Current position/outcome

- Separate sales processes were conducted for the CFD and Spreads businesses (including separate marketing documents and data rooms) as, although some bidders had expressed interest in acquiring both businesses together, other parties has expressed interest in pursuing the acquisition of one asset.
- A total of 15 parties who had expressed an interest in one or both businesses were contacted during the marketing stage and 13 NDAs were subsequently sent to these parties. Of the 13 NDAs sent, ten were agreed and executed by the parties before receiving the relevant confidential information memorandum.
- A total of seven parties submitted indicative offers for various assets relating to both businesses. However, following extensive discussions with bidders and several meetings with management, a transaction could not be agreed.
- Despite the initial interest, no bids were received as potential buyers perceived that it was more economical to recruit top performing brokers and sales staff on an individual basis. Therefore, no further active attempt to sell the CFD and Spreads business was undertaken.
- Following the release of a majority of the employees of both businesses, a sale of the underlying proprietary software and IT platforms will be pursued in order to extract value from these assets

# Sale of business and investments (cont.)

## LME shares

### *Position on appointment*

The Company held around 4.7% (600,000 ordinary 'A' shares) in LMEH (the LME or LMEH) and 25,000 ordinary LMEH 'B' shares. Only the 'A' shares hold voting rights and are entitled to dividends. The number of 'B' shares owned provides certain membership benefits with regards to trading access within LMEH (e.g. Category 1 members are entitled to trade in the open outcry ring).

## Objectives

- To realise value, if possible, a speculative bid premium for the shares.

## Strategy

- The LMEH shares were therefore available for sale by the Special Administrators.
- Interest in the asset was sought through a targeted but competitive process, with 22 members being approached.

## Current position/outcome

- Nine parties made final offers for either all the shares or a single component.
- Having received one bid significantly above that of the next highest bidder, a contract for sale was exchanged on 21 November 2011; completion occurred on 5 December 2011, following ratification of the share transfer by the LME Board of Directors. The consideration relating to the ordinary "A" and "B" shares is confidential, but was a significant eight figure Sterling sum.

# Regulatory matters

# Regulatory matters

## Issues

- Notwithstanding the appointment of special administrators under the SAR, the Company remains an FSA regulated entity during its wind-down. The FSA agreed the permissions immediately on appointment to limit its authorised activities to, in effect, those solely necessary to wind down the business.
- With the effective break-up of the MF Global Holdings Group, overseas regulators are seeking to have direct access to MFG UK whereas previously much of the communication would have been via the local affiliates.

## Objectives

- To ensure the Company remains compliant with its regulatory requirements, or obtains the necessary waivers for any non-compliance caused by the special administration and insolvency of the Company.
- To maintain effective internal controls to ensure compliance with all legal obligations (including health & safety, anti-money laundering procedures, insider trading, etc).
- Ensure complaints handling procedures are maintained to clear all pre-appointment client complaints and that post-appointment matters can be appropriately addressed.

## Strategy

- Liaise closely with the FSA supervision teams to ensure all requirements are understood and issues can be addressed quickly and efficiently.
- The Company's regulatory compliance infrastructure has had to be maintained; with special attention focussed on managing the close-out of positions and distribution of assets and cash.
- Ensure all retained staff continue to receive update training on regulatory and compliance matters on a regular basis.
- Integration of the special administration email enquiry portal with the Company's existing complaints handling procedures to ensure issues are identified quickly and addressed in line with the FSA, FSCS and FOS guidelines.

## Current position

- All outstanding pre-appointment regulatory returns have been submitted. Discussions are on-going with the FSA regarding the suite of post-appointment regulatory returns, with the intention of providing as much as is practicable of their 'normal' requirements.
- Complaints and claims regarding financial loss are, following the special administration, subject to FSCS rather than FOS rules.

# Communications



# Communications

## Issues

- The formal insolvency on 31 October 2011 led to 100 times the normal volume of 'breaks' and unreconciled items for MFG UK and some 1.6 million open positions to resolve. Ordinarily the Company's systems could have processed much of this automatically, without human intervention but as these systems were for the most part deactivated by third parties, or the nature of the transactions e.g. defaults do not allow normal electronic processing, manual processes are required to clear the backlog. The main US trading entity was MFG Inc, which is under the control of the SIPA Trustee; a number of other key overseas affiliates filed for their own local bankruptcy protections in the days following 31 October.
- Timely and accurate information is at a premium. Most exchanges and clearing houses have defaulted MFG UK under their rules and have liquidated positions; however, in the majority of cases we have not been provided with the required visibility on these, in particular the final execution prices which drive the client accounting. Similarly, exchanges and clearing houses have yet to confirm the balances they hold on both segregated and non-segregated accounts, as they are reconciling and checking this information.
- Clients, creditors and other stakeholders (e.g. FSA, FSCS, shareholders, etc.), as well as the media all naturally sought to understand what had happened and how the special administration would impact the return of assets and monies to clients in particular. Moreover, some possible answers, on expected position liquidations, were likely to be market-sensitive which limited what the Special Administrators could say without prejudicing the potential outcomes and thereby potentially harming the estate. The inevitable mismatch between their demands on the one hand and the availability of meaningful answers to many of those questions on the other required careful information management, particularly in the initial few weeks. Within those constraints the Special Administrators have attempted to provide clients and customers with as much information as possible.

## Objectives

- Have clear channels of communication for all stakeholder groups.
- Ensure clarity in all communications, but not so as to prejudice either MFG UK's estate or the client assets.
- Avoid providing misleading information.

## Strategy

- Establish web site for special administration (accessible via mfglobal and KPMG UK web presence.)
- Utilise the media interest to maximise messaging to stakeholders and the public, through regular press updates.
- Establish single-point email enquiry portal to handle enquiries.
- Establish dedicated phone line.
- Issue regular updates to clients on progress of the special administration and issues arising.

## Current position

- The email enquiry line has received over 7,500 emails to date, of which almost 7,000 were received in the first three weeks after appointment. Following this, a number of updates were sent out to creditors directly, advising them of the latest position. Subsequent email enquiries are being dealt with on a case by case basis, and all but the most complex of queries are being responded to within 48 hours of receipt.

**Other matters**

# Other matters

## Statement of affairs and financial information

- Following a request from the Directors, the Special Administrators have granted an extension of time to submit a Statement of Affairs for the Company to 29 February 2012.
- This extension has been granted as the Directors are presently unable to obtain complete, updated and accurate financial information to present in the Statement of Affairs. This is due to the system issues currently being experienced, as well as the reliance on third parties (eg. exchanges and other markets) for information which once received will be subject to extensive reconciliation work.
- In the absence of the Statement of Affairs, the Rules including Rule 59 (2) (j), (k) and (p) require the Special Administrators to provide details of the financial position of the Company at the latest practicable date, together with a list of creditors, including names, addresses and details of their debts and details of any security held, and names and addresses of clients together with a description of the amount and type of client assets held, ownership in respect of those assets and details of any security held. The names and addresses of clients who are individuals are not to be disclosed.
- The Special Administrators have taken the decision not to include an alternative financial analysis or lists of creditors and clients as these are likely to be incomplete at this stage, but will provide information as soon as that meaningfully can be done.
- Subject to any court order being made to redact commercially sensitive information, the Directors' Statement of Affairs will be filed at Companies House and made available on the KPMG web site once received.

## Directors' conduct

- The Special Administrators are required by The Insolvent Companies (Reports on Conduct of Directors) Rules 1996 to submit a report or a return to the Department of Business Innovation and Skills on the conduct of any person who has been a director or shadow director of the Company at any time in the three years immediately preceding the Special Administrators' appointment.
- We would be grateful to receive any comments that creditors or any other party may wish to make in order to assist in our investigations into the Company's affairs and in our preparation of comments for submission to the Department of Business and Innovation. Such comments, if required, can be treated in the strictest confidence.

# **Purpose of the Special Administration**

# Purpose of the Special Administration

## Special administration statutory objectives under the Regulations

1. Pursuant to the Regulations, the Special Administrators of the Company have three special administration objectives:
  - a) Objective 1 is to ensure the return of client assets as soon as is reasonably practicable.
  - b) Objective 2 is to ensure timely engagement with market infrastructure bodies and the Authorities pursuant to Regulation 13.
  - c) Objective 3 is to either:
    - I. rescue the investment bank as a going concern; or
    - II. wind it up in the best interests of the creditors.
2. The Special Administrators are entitled to deal with and return client assets in whatever order they think best achieves Objective 1.
3. The Regulations state that the order in which the objectives are listed is not significant, however the Special Administrators are required to commence work on each objective immediately after appointment, prioritising the order of work on each objective as they think fit in order to achieve the best result overall for clients and creditors.
4. With regard to Objective 3, there was no reasonable prospect of rescuing the Company as a going concern, so the Special Administrators are pursuing Objective 3 (ii) – to wind up the Company in the best interests of the creditors.
5. To date the Special Administrators have pursued all three objectives equally, mindful of the expediency expected to meet Objectives 1 and 2.
6. The Special Administrators propose to pursue all three objectives equally, (albeit Objective 2 has largely been satisfied to date), subject to creditors and clients approving these Proposals.

**Creditors**

# Creditors

## Secured creditors

There are charges registered over the Company's assets in favour of the following entities and of the following nature:

- Citibank International Plc, Athens Branch specified to comprise a security interest in the form of a pledge created pursuant to a Collateral Agreement dated 27 April 2010 and registered on 7 May 2010.
- Citibank N.A. for itself and on behalf of each Custodian specified to comprise a first fixed security interest (or equivalent under the local laws) created pursuant to Security Deed dated 27 April 2010 and registered on 7 May 2010.
- Citibank N.A., London Branch specified to comprise a security interest in the form of a pledge created pursuant to a Account Pledge Agreement dated 27 April 2010 and registered on 7 May 2010.
- Citibank N.A. specified to comprise a fixed charge and a first floating charge created pursuant to a Security Deed dated 30 January 2009 and registered on 9 February 2009.
- European Central Counterparty Limited specified to comprise a mortgage, a fixed charge and a floating charge created pursuant to a Security Deed dated 15 October 2008 and registered on 20 October 2008.
- European Central Counterparty Limited specified to comprise a security interest in the form of a pledge created pursuant to a Pledge Agreement dated 15 October 2008 and registered on 20 October 2008.
- The Royal Bank of Scotland Plc specified to comprise a first fixed charge and a first floating charge created pursuant to a Security Deed dated 5 November 2007 and registered on 13 November 2007.
- Euroclear Bank S.A./N.V. specified to comprise a security interest created pursuant to a Collateral Agreement Governing Secured Borrowings by Participants in the Euroclear System dated 26 August 2004 and registered on 3 September 2004.

- There is no outstanding security over the assets of the Company which would allow for the appointment of an Administrator or Administrative Receiver.
- Whilst the provisions of S176A of the Act (where Administrators are required to reserve a fund from floating charge assets for unsecured creditors) will apply, this will not be significant.

## Preferential creditors

- As advised earlier in this document, all employees are employed by MFG Services. Accordingly, the Company does not have any preferential creditors in respect of wage arrears or holiday pay.

## Unsecured creditors

- The Special Administrators are unable to provide a reliable estimate of total unsecured creditors at this time. The total liabilities are likely to be impacted by the effects of the special administration.
- Due to material uncertainties both as to the ultimate quantum of realisation of non-client assets and as to the quantum of claims and contingent claims the Special Administrators are unable to estimate the likely recovery for unsecured creditors at this stage.
- As part of the Company's regulatory liquidity buffer, MFG Global Finance Europe Ltd had provided a \$250 million subordinated loan to MFG UK. We are in the process of reviewing the terms of this loan however we understand that this ranks for distribution after all unsecured creditors are paid in full (together with any statutory interest due there on), but before any distributions would be made to equity holders.

# Creditors (cont.)

## Creditors' meetings

- We anticipate that there will be distributions to the Company's clients and unsecured creditors. Accordingly we propose to hold a meeting for both the clients and creditors simultaneously at 11:00am on 9 January 2012 at the Barbican Centre, Silk Street, London, EC2Y 8DS.
- Details of the two resolutions to be considered at the meeting are set out on the creditors and client proxy forms.
- The sole purpose of the meeting is to discuss the Special Administrators' proposals as set out in this report and invite a Creditors' Committee of three clients and two creditors to be appointed. Richard Moore (CEO of MFG UK) will be present pursuant to Rule 62.



# **Costs of the Special Administration**

# Costs of the Special Administration

## Special Administrators' remuneration

- The statutory provisions relating to remuneration are set out in Rule 196. Further information is given in the Association of Business Recovery Professionals' publication *A Creditors Guide to Administrators' Fees*, which can be found at the R3 website at [http://www.r3.org.uk/media/documents/technical\\_library/SIPS/SIP%209%20E&W.pdf](http://www.r3.org.uk/media/documents/technical_library/SIPS/SIP%209%20E&W.pdf). However if you are unable to access this guide and would like a copy please contact 020 3321 4195.
- It is for a creditors' committee, if one is formed, to determine the basis on which the Special Administrators' remuneration is to be fixed. However, if there is no committee the basis of the Special Administrators' remuneration may be fixed by resolution of a meeting of creditors and clients. In respect of the Special Administrators' remuneration incurred in pursuit of Objective 1 it is to be paid out of client assets and monies held by the Company.
- It is proposed that the Special Administrators' remuneration will be fixed by reference to the time properly given by the Special Administrators and their staff in attending to matters arising in the special administration.

## Pre-appointment costs

- Pre-appointment costs incurred by the Special Administrators and their staff prior to appointment at 5pm on 31 October 2011 amount to £272,141.
- The agreement to draw remuneration in respect of those costs will be sought from the creditors' committee once appointed.
- In summary, the work undertaken covered the following areas:
  - Attending board meetings of MFG UK from 28 October 2011, at which the solvency issues of MFG UK and the group were discussed, as well as possible solutions to the issues.
  - This work was conducted in the four days, including Saturday and Sunday, immediately prior to and including the day of appointment. It included briefing and mobilising a team to prepare for a possible Monday appointment.
  - Preparing and reviewing appointment documentation.

# Proposals

# Proposals

**In addition to the specific itemised proposals below, this document in its entirety constitutes the Administrators' Proposals.**

The Administrators of the Company propose the following:

- To pursue the special administration objectives being:
  - Objective 1 – to ensure the return of client assets as soon as reasonably practicable;
  - Objective 2 – to ensure timely engagement with market infrastructure bodies and the Authorities pursuant to regulation 13;
  - Objective 3 – to rescue the bank as a going concern or wind it up in the best interests of the creditors.
- Objective 2 has now largely been completed. Objective 1 and 3 are being addressed in parallel. It is likely that certain assets and monies are likely to be returned to clients earlier than the payment of dividends to unsecured creditors. The first alternative of Objective 3 (rescue of the bank as a going concern) is not capable of being achieved.
- Pursuant to the above objectives the Special Administrators will continue to permit the Company to employ staff from MFG Services and use their services in order to maximise the outcome for those clients with monies and assets with the Company and for the unsecured creditors.
- To seek the election of a creditors' committee and to consult with it regarding significant issues in the special administration and seek resolutions where appropriate. To hold regular meetings of the Committee to discuss progress in the special administration and to seek fee approvals (where required). The Special Administrators propose a five-person committee (the maximum allowed) and that two of those persons will be elected by the unsecured creditors and that three of them will be elected by the clients.
- To move funds collected on behalf of clients into bank accounts controlled by the Special Administrators in their original currencies or converted into a common or other currency as considered appropriate in the circumstances.
- To move funds collected as part of the estate into bank accounts controlled by the Special Administrators and from time to time convert them into Sterling. Investment policy and related matters will be determined in consultation with the creditors' committee.
- In accordance with Rule 166, 'debt in a foreign currency', the liabilities to creditors in a currency other than Sterling shall be converted into Sterling at the official exchange rate prevailing on the date that the Company entered special administration.
- To continue to do all such things as are reasonably expedient and generally exercise all powers as Special Administrators as they, in their discretion, consider desirable in order to maximise returns to clients and the realisations from the assets of the Company in accordance with the Objectives set out in this report.
- To investigate and, where appropriate, pursue any claims the Company may have.
- The Special Administrators will take steps to extend the special administration beyond the statutory time limit of one year if they should deem such extension necessary to achieve the objectives of the special administration.
- That the Special Administrators be authorised to draw fees on account from the assets of the Company (and client assets in respect of Objective 1) from time to time during the period of the special administration based on time properly spent at KPMG LLP charge out rates that reflect the complexity of the assignment. Also that the Special Administrators be authorised to draw disbursements from time to time to include category two disbursements as defined in Statement of Insolvency Practice 9.
- That the costs of KPMG LLP in respect of IT, forensic, tax, VAT, pension and other relevant advice provided to the Special Administrators be based upon time costs and paid out of the assets of the Company (and client assets in respect of Objective 1).

## Proposals (cont.)

- That the costs of KPMG overseas firms incurred in respect of assisting the Special Administrators in maximising realisations for the benefit of the Company's creditors and clients be paid as an administration expense out of the assets of the Company.
- If the Special Administrators should think fit to place the Company into liquidation, a conversion of the special administration to a creditors' voluntary liquidation not being an option available pursuant to Regulation 15, the Special Administrators shall petition the Court for a winding-up order and shall apply for the appointment of Richard Heis, Michael Pink and Richard Fleming as joint liquidators of the Company taking such steps as are required under the Act as modified by the Regulations and Rules. The joint liquidators' appointment shall be on terms that any act required or authorised under any enactment to be done by the joint liquidators may be done by any one or more of them.
- The Special Administrators will be discharged from liability under Paragraph 98 of Schedule B1 to the Insolvency Act 1986 as modified by Regulation 15 upon their appointment as Special Administrators ceasing to have effect at a time specified by the Court and, subject to any order to the contrary that the Court might make, immediately upon their appointment ceasing to have effect.
- In the event that the Special Administrators consider there are no outstanding matters that require to be dealt with in a liquidation and client assets are no longer held by the Company, upon completion of the special administration (once the objectives have been met) the Special Administrators shall file the appropriate notices at Companies House and take such steps as required to send a copy of that notice to every client of the Company of whom they are aware and to the FSA. The Company will then be dissolved without further recourse to the creditors or clients of the Company.

# Appendix 1

Statutory information

## Appendix 1

# Statutory information

<b>Company name</b>	■ MF Global (UK) Limited (in special administration)
<b>Company number</b>	■ 01600658
<b>Trading names</b>	■ MF Global Direct ■ MF Global Markets
<b>FSA registration number</b>	■ 106052
<b>Date of incorporation</b>	■ 27 November 1981
<b>Registered office</b>	■ 5 Churchill Place, Canary Wharf, London E14 5HU
<b>Previous address</b>	■ Sugar Quay, Lower Thames Street, London EC3R 6DU
<b>Court</b>	■ High Court of Justice, Chancery Division, Companies Court
<b>Court reference</b>	■ 9527 of 2011
<b>EC Regulation on insolvency proceedings (1346/2000)</b>	■ The EC Regulation does not apply
<b>Special Administrators</b>	■ Richard Heis, Michael Pink and Richard Fleming
<b>Date of appointment</b>	■ 5pm on 31 October 2011
<b>Appointer</b>	■ Court
<b>Para 100(2) statement</b>	■ In accordance with Rule 8 (3) (e), any acts required or authorised under all enactment to be done by either or all of the Special Administrators may be done by all or any one or more of the persons for the time being holding that office
<b>Directors (at 31 October 2011)</b>	■ Bradley Ira Abelow, David Moses Gelber, Francis Kemper Cagney, Richard Warren Moore and Charles Graham Pendred
<b>Secretary</b>	■ Vicki Kong
<b>Shareholder</b>	■ Wholly owned by MF Global Holdings Europe Limited <sup>(a)</sup>

Note: (a) Ordinary share holdings as at 31 May 2011.

# Appendix 2

Financial information



## Appendix 2

# Financial information

### MF Global UK Limited balance sheet – 28 October 2011

<b>\$000</b>	<b>Estimated US GAAP Balance sheet</b>	<b>Estimated UK GAAP Balance sheet</b>
Cash at bank	850,335	461,712
Reverse repos	3,286,662	13,966,891
Borrows and loans	1,086,749	1,086,749
Outrights (securities)	1,214,962	1,218,306
Client receivables	115,722	111,267
Broker receivables	1,768,765	4,333,730
Other assets	175,760	184,439
<b>Assets</b>	<b>8,498,955</b>	<b>21,363,094</b>
Repos	(4,438,998)	(17,499,029)
Borrows and loans	(319,069)	(319,069)
Outrights (short securities)	(321,673)	(321,673)
Client payables	(2,030,766)	(876,516)
Broker payables	(640,533)	(1,634,120)
Other liabilities	(341,693)	(344,890)
<b>Liabilities</b>	<b>(8,092,732)</b>	<b>(20,995,297)</b>
<b>Net assets</b>	<b>406,223</b>	<b>367,797</b>

Source: Company records.

# Appendix 3

Information regarding the initial meeting of creditors and the voting process

## Appendix 3

# Information regarding the initial meeting of creditors and the voting process

### Questions and Answers regarding the initial meeting of clients and creditors and the creditors' committee (the 'Initial Meeting')

Any reference to 'a Rule' refers to the special administration rules for investment banks as set out in The Investment Bank Special Administration (England and Wales) Rules 2011. The full text of the Rules can be found at [www.legislation.gov.uk/ukSI/2011/1301/contents/made](http://www.legislation.gov.uk/ukSI/2011/1301/contents/made)

Any reference to 'a Regulation' refers to the special administration regulations for investment banks as set out in The Investment Bank Special Administration Regulations 2011. The full text of the Regulations can be found at [www.legislation.gov.uk/ukSI/2011/245/contents/made](http://www.legislation.gov.uk/ukSI/2011/245/contents/made)

Any reference to the 'Website' refers to [www.kpmg.co.uk/mfglobaluk](http://www.kpmg.co.uk/mfglobaluk)

#### *What will happen at the Initial Meeting?*

The Rules require that an initial meeting of clients and creditors be held in order to consider the Special Administrators' proposals and to consider the appointment and composition of any creditors' committee.

The meeting will be designed so that the Special Administrators can present a summary of their proposals to clients and creditors, although please note that the Special Administrators will only be providing a summary of those proposals. It will be assumed that the clients and creditors have familiarised themselves with the proposal (available on the Website or by post on request) ahead of the Initial Meeting. The meeting will also give creditors an opportunity to put questions to the Special Administrators.

At the meeting the creditors and clients will be asked to consider and vote upon the Special Administrators' proposals, including any modifications that an individual creditor or client might put forward on the day. The clients and creditors will also be asked to consider the appointment and composition of any creditors' committee, following which a vote will be taken.

#### *Who will be at the Initial Meeting?*

One or more of the Special Administrators will chair the Initial Meeting and answer creditors and clients' questions (Rule 79). Richard Moore (CEO of MFG UK) will be present.

#### *Do I have to attend the Initial Meeting?*

No. You are not obliged to attend the creditors and clients' meeting. The law recognises that creditors and clients are not always able to attend in person and allows you to ask a representative to attend as proxy and vote on your behalf. You will not prejudice your claim and entitlement to dividend if you do not attend or appoint a proxy.

#### *Am I bound by the Special Administrators' proposals if they are approved at the meeting?*

The Special Administrators' proposals, when approved by the creditors and clients, will dictate how the Company's affairs will be conducted in the future and how creditors and clients' claims will be addressed. Once approved, the proposals are binding on all creditors and clients, including those not present or represented at the meeting. For this reason, it is important that creditors and clients properly consider the proposals and decide whether and how they wish to vote.

#### *How do I ensure that my vote counts at the meeting?*

In order to vote, clients and creditors must have submitted written details of their claim(s) (including any calculation required in the claim form) and the chairman must have admitted that claim for voting purposes. Both clients and creditors must submit their completed and signed claim forms to the Special Administrators no later than 12.00 noon on 6 January 2012, being the last business day before the meeting, unless the chairman is satisfied that any delay was due to circumstances beyond that person's control (Rule 85(1) and (Rule 90(1))).

If you do not intend to attend (or cannot attend) the Initial Meeting in person, in order to vote at the Initial Meeting, you will also need to lodge a proxy.

## Appendix 3

# Information regarding the initial meeting of creditors and the voting process (cont.)

### *What is a proxy and do I need to lodge one?*

If you are an individual (and not a corporate body such as a limited company) and believe you may be a creditor and/or a client, you may vote by simply attending the meeting, provided you have lodged a claim as explained above.

If you do not want to (or cannot) attend the meeting, you may nominate someone else, or the chairman of the meeting, to vote for you. They can vote either on your instructions or at their own discretion. Do, however, remember that the chairman will be one of the Special Administrators and you might wish to consider specifying clearly how he should vote.

You must do this by completing the appropriate proxy form. The form needs to be signed by the creditor or the client or by someone authorised by him and the nature of the person's authority to sign should be stated (Rule 125(3)). If a company is the creditor or the client, a director should normally sign. The proxy form must then be submitted at or before the meeting.

If however the debt is owed to a corporate body and you wish to attend or vote at the Initial Meeting, you should complete and return the appropriate proxy form. Alternatively you can produce at the Initial Meeting a resolution of the directors authorising you to represent that company (Rule 130).

### *Where can I find the claim forms?*

The claim forms are available from the Website.

### *Why are there two sets of claim forms?*

The Rules and Regulations distinguish between clients and creditors as potential claimants against the Company. There are therefore separate claim forms for creditors and clients. Please refer to the guidance notes which accompany the claim forms for further information to assist you with determining if you are a client or a creditor of the Company and for guidance on which form(s) to complete. You should consult your own legal and other professional advisors for advice in relation to your claim.

### *Who decides whether my claim will be admitted for voting purposes?*

The chairman has the power to accept or reject the whole or any part of your claim (Rule 89 and Rule 92). If he is in doubt whether your claim should be admitted, he will mark it as objected to and allow you to vote. If however, the objection is sustained, then your vote will be declared invalid (Rule 89(3) and Rule 92(3)). If your vote was critical to the outcome of the meeting, this could change the resolutions that were passed and/or result in a further meeting (Rule 96(2)).

The chairman may also call for any document or other evidence to be produced for the purpose of substantiating the whole or part of your claim (Rule 85(3) and Rule 90(3)).

### *What happens if I disagree with the chairman's decision?*

You are entitled to appeal to the court for an order reversing the chairman's decision on your claim provided you do so within 21 days of the date of the Initial Meeting (Rule 96). If the court does reverse the chairman's decision it can order that another meeting be held or make such other order as it thinks just (Rule 96(2)). Clients and creditors also have the right to appeal to the court if they believe that the special administration unfairly harms their interests (Paragraph 74(1) Schedule B1 of the Insolvency Act 1986 as applied by the Regulations). We recommend that you seek legal advice about the merits of taking these steps in any particular circumstances.

### *How do I calculate my claim for voting purposes?*

Creditor and client votes are calculated differently under the Rules.

Creditor votes are calculated according to the amount of a creditor's claim as at the date on which the Company entered into special administration, less any payments that have been made to him after that date in respect of his claim and any adjustments by way of set-off in accordance with Rule 164 or 165 as if that Rule were applied on the date that the votes were counted (Rule 87(1)).

Client's voting rights are calculated according to value of the client's claim submitted under Rule 90 (Rule 91(1)). The chairman will value any securities making up the client's claim by reference to the closing or settlement price for such securities of a particular description as set out in Rule 91(3) (Rule 91(2)).

## Appendix 3

# Information regarding the initial meeting of creditors and the voting process (cont.)

### *Will I receive an updated statement before I have to submit my claim?*

Unfortunately it may not be possible for the Special Administrators to issue updated statements to all clients before the Initial Meeting. The Special Administrators are still going through the process of closing out positions and trades on some exchanges and undertaking the necessary accounting exercises to bring client records up to date. The Special Administrators will take steps to send out updated statements as soon as possible once this information is available. In the interim period, claimants will be permitted to submit claims on an estimated basis. If you are unable to determine your claim value with any certainty, the Special Administrators request that you submit an estimated claim for voting purposes and submit a formal claim for distribution purposes at a later date.

### *What happens if I cannot yet quantify my claim with certainty?*

Again, if you are unable to determine the exact value of your claim, the Special Administrators request that you submit an estimated claim for voting purposes and submit a formal claim at a later date. Note that a creditor will not be able to vote in respect of a debt for an unliquidated amount or any debt whose value is not ascertained, however the chairman has the discretion to agree to put an estimated minimum value on the debt for voting purposes (Rule 87(2)).

### *What happens if my debt is wholly or partly secured?*

A secured creditor whose debt is wholly or partly secured is entitled to vote only in respect of the balance (if any) of his debt after deducting the value of his security as estimated by him (Rule 87(4)(a)).

### *What happens if I hold a negotiable instrument?*

A creditor shall not vote in respect of a debt wholly or partially on, or secured by, a current bill of exchange or promissory note unless he is willing to, amongst other things, treat the liability to him on the bill or note of every person who is liable on it antecedently to the Company and is willing to estimate the value of the security and, for the purpose of his entitlement to vote (but not otherwise), to deduct it from his claim (Rule 87(4)(b)).

### *What happens if I am a creditor under a hire-purchase, conditional sale agreement or leasing agreement?*

An owner of goods under a hire-purchase or chattel leasing agreement, or a seller of goods under a conditional sale agreement is entitled to vote in respect of the amount of the debt due and payable to him by the Company on 31 October 2011. In calculating the amount of any debt for this purpose, no account shall be taken of any amount attributable to the exercise of any right under the relevant agreement, so far as the right has become exercisable solely by virtue of: (i) the making of a special administration application, or (ii) of the Company entering special administration (Rule 88).

### *What majorities are needed to approve resolutions?*

If the Special Administrator thinks it appropriate, the creditors and clients may vote on the same resolution at the meeting, however the creditors and the clients shall vote separately on the resolution (Rule 93(2)). A resolution is passed when a majority (in value) of those present and voting, in person or by proxy, have voted in favour of it (Rule 94(1)). Any resolution is invalid if those voting against it include more than half in value of the creditors, or, as the case may be, clients, to whom notice of the meeting was sent and who are not, to the best of the chairman's belief, connected with the Company (Rule 94(2)).

### *What if the requisite majority is not achieved?*

If the requisite majority is not achieved, the creditors and clients will be asked to vote on a resolution to adjourn the meeting for not more than 14 days (Rule 64).

### *What if the proposals are approved by creditors, but not clients or vice versa?*

Where at the Initial Meeting of creditors, the proposals are approved subject to modifications by one class, but not the other, the proposals will not be considered approved by the other class unless that other class has approved the proposals as modified (Rule 63(5)). If the Special Administrators are unable to get the requisite majority of creditors or clients for approval of the statement of proposals, the Special Administrators may apply to the court for directions (Rule 64(5)).

## Appendix 3

# Information regarding the initial meeting of creditors and the voting process (cont.)

### *What are the functions of the creditors' committee?*

The purpose of the creditors' committee is to assist the Special Administrators in discharging their functions, and to act in relation to them in such manner as may be agreed from time to time (Rule 106(1)). In particular, it is the creditors' committee who will agree the basis of the Special Administrator's remuneration (Rule 196(5)).

### *How is the creditors' committee formed?*

Whilst it is not obligatory to have a creditors committee, the Special Administrators intend to put a resolution before the creditors and clients at the Initial Meeting to determine whether the claimants wish to have one (Rule 104(1)). If the creditors and clients so decide, then in accordance with Rule 104(3), in order to reflect all parties with an interest in the achievement of the special administration, the creditors' committee will consist of a maximum of five members which will consist of three client representatives and two creditor representatives as members and the Special Administrators request nominations accordingly. **If you would like to nominate a member to be elected to the committee, the Special Administrators request that you submit your nominations well in advance of the Initial Meeting and in any event by 12.00 noon on 6 January 2012.** If you wish to submit your nomination, please complete the appropriate part of the proxy form(s) and return your proxy form to the Special Administrators by email or to the address specified in the guidance notes to the respective proxy form.

Note that you will only be able to nominate/vote on a representative member of the creditors' committee for your class of creditor. If you think you are a client of the Company and wish to submit your nomination for a client representative member of the creditors' committee, you must complete the appropriate part of the Client Proxy Form. Similarly, if you think you are a creditor of the Company and wish to submit your nomination for a creditor representative member of the creditors' committee, you must complete the appropriate part of the Creditor Proxy form.

Any creditor of the Company is eligible to be a member of the committee, so long as his claim has not been wholly disallowed for voting purposes, nor wholly rejected for the purposes of a distribution or divided and the claim is not fully secured (Rule 104(5)). Similarly, any client of the Company is eligible to be a member of the committee, so long as his claim in respect of client assets has not been wholly disallowed for voting purposes, nor wholly rejected for the purposes of returning client assets (Rule 104(6)). A body corporate may be a member of the committee, but it can only act as such through a properly appointed representative (Rule 104(7)). Note however that when submitting your nominations, that no person may act as a member of the committee unless and until he has agreed to do so (Rule 105(4)).

The creditors' committee will come into being once the Special Administrators have issued a certificate of its due constitution (Rule 105(1)).



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